

Book II - Weekly Summary

3 Jan 1947 (#29) thru 27 June 1947 (#54)

BOOK II - Top Secret Weekly Summary  
3 July 1917 (429) thru 27 June 1917 (451)

30

54

## CONTENTS

	Pages
TRENDS IN BRIEF . . . . .	1 - ii

### EASTERN EUROPE

Communist Attacks on Polish Socialists . . . . .	1
Yugoslav Offer of Air Rights to the UK . . . . .	2

### NEAR EAST-AFRICA

Saudi Arabia Seeks Settlement of Middle East Problems . . .	3
---	---

### WESTERN HEMISPHERE

Canada's Apprehension Over Diminishing Dollar Reserves .	4
Critical Phase of Brazilian Politics . . . . .	4
Prospects for Recognition of the Somoza Puppet Regime .	5

Document No. 54  
NO CHANGE in Class.  4  
 DECLASSIFIED  
Class. CHANGED TO: TS S C  
DDA Memo, 4 Apr 77  
Auth: DDA REG. 77/1763  
Date: 21/1/78 By: 023

JUN  
27

235019/2

## TRENDS IN BRIEF

### WESTERN EUROPE

In Italy neo-fascist violence against Communists has increased since the exclusion of leftist elements from the De Gasperi Cabinet. Communist propaganda may be expected to exploit this development to represent De Gasperi as an enemy of the working class and a front for reaction. This charge could be met most effectively by the inclusion of substantial working-class representation in the Cabinet, which could be accomplished only through the accession of the Saragat Socialists, who are willing to participate.

### EASTERN EUROPE

Current Communist attacks on the Polish Socialists are directed toward the eventual abolition of the Socialist Party in Poland or its fusion with the Communist Party (page 1).

The reported Yugoslav offer of air rights to the UK, if bona fide, would represent a reversal of the Soviet policy of excluding US-UK commercial air operations from the Balkans (page 2).

The 1947 Soviet grain crop, according to present indications, will exceed planned domestic requirements by some five million tons. Some of this surplus may be absorbed by increased domestic consumption (an end of bread rationing is promised for 1947); some may be used for stockpiling; a substantial portion, however, is likely to be used for export to serve Soviet political and economic purposes abroad.

### NEAR EAST-AFRICA

Ibn Saud's recent representations to the US emphasize the differences among the Arab States (page 3).

Prime Minister Qavam's new Cabinet (his fifth) appointed by the Shah on 21 June is, in general, an improvement over its predecessor; it represents a trend to the Right and thus gives promise of increased resistance to Soviet demands for concessions in Iran. The fact that

[REDACTED]

several of the new Ministers are considered to be pro-UK or pro-US, moreover, is indicative of Iran's increasing orientation toward the west. As the new Cabinet is somewhat more pro-Shah than the last one, it is also probable that the Shah will now have greater influence in the Government.

#### FAR EAST

Soviet economic control of North Korea is being established by means similar to those employed in the Soviet economic penetration of Eastern Europe: the establishment of monopolistic, joint Soviet-Korean stock companies operating under Soviet management and with Soviet technical assistance. The "considerations," in return for which the USSR acquires a 50% stock interest in these companies, are the liberation of Korea and the restoration of North Korean economy. By such devices the USSR is consolidating its control of North Korea in such form as to endure beyond an ostensible Soviet withdrawal.

The Viet Minh is increasing its activities throughout Indochina in an apparent effort to compel the French to deal with President Ho Chi-Minh's regime. The French, however, appear increasingly determined not to deal with Ho and are reported currently to be seeking to establish a government headed by Tran Trong-Kim, former head of the Japanese puppet Government in Hanoi in 1945 and, more recently, adviser to former Emperor Bao Dai. Such French efforts can be expected to delay further a solution of the conflict in Indochina.

#### WESTERN HEMISPHERE

Canada's apprehension over its diminishing dollar reserves reflects its pessimism regarding the prospects of an early reconstruction of the world economy (page 4).

Popular confidence in the Brazilian Government is being dissipated by the latter's inability to cope with the country's economic crisis (page 4).

The unanimity on non-recognition of the Somoza puppet regime will be difficult to maintain, once the regime has been sanctioned by a Nicaraguan Constituent Assembly (page 5).

## EASTERN EUROPE

Communist Attacks on Polish Socialists

Within the last month the Polish Communists have increased their efforts to eliminate the Socialist Party as an independent political factor in Poland. The present drive is believed to be an attempt gradually to weaken the Socialist Party in preparation for its eventual abolition or fusion with the Communist Party.

The Communists are attacking the Socialists on two fronts. On the economic front, the Communists are undermining the prestige and power of the great Socialist-dominated Spolem cooperative and have passed legislation imposing strong government controls which will weaken further the economic influence and strength of the Socialists. Concurrently, the Communists have begun a campaign of intimidation by arresting several Socialist members of the wartime underground on the pretext of continued contacts with General Anders (the majority of Socialists belonged to non-Communist factions of the underground and consequently are also subject to the same allegation). Meanwhile, the Communists are keeping the Socialists on the defensive by persistently calling for an "organic" union of the two Parties as a more efficient means of protecting the rights of the working class.

Early realization of the Communists' ultimate goal -- abolition of the Socialist Party or fusion with the Communist Party -- is unlikely. Such a drastic step at this time would: (1) create serious internal unrest; (2) rule out the possibility of western economic aid; (3) remove the facade of democratic procedure behind which the Communists now operate; (4) weaken the position of the Communist Parties in such countries as Norway, Italy, France, and Czechoslovakia; and (5) disrupt the recovery and industrialization of the Polish economy.

These intensified Communist attacks and the recent developments in other Eastern European countries have so discouraged Socialist leaders that many of them see little hope of retaining their Party's present semi-independent status. Socialist leaders are being urged by the Party's rank-and-file to make a strong stand against the Communists. The Party's leaders will avert such a showdown -- which they fear would be suicidal -- and, as the only alternative, will probably be forced to grant greater and greater concessions. Such a policy, however, as in the case of Nagy's Smallholders' Party in Hungary, will in the long run serve the Communist purpose of undermining the Socialist Party's remaining political and economic strength.

**TOP SECRET**Yugoslav Offer of Air Rights to the UK

The Yugoslav offer of air rights to the UK, if it is bona fide, would represent reversal of Soviet policy, which hitherto has excluded all US and UK commercial air operations into and through the satellite states. Now, however, Yugoslavia has declared its willingness to grant the UK an air corridor through Belgrade to Sofia and Istanbul.

The Yugoslav gesture may be designed to enlist British support for Yugoslavia's case in regard to war claims, territorial adjustments, and other questions unrelated to air matters. In any event, the USSR and Yugoslavia probably desire to ascertain the maximum political concessions which the British are prepared to make in order to obtain air rights in the Balkans. This maneuver would parallel the recent US-Rumanian air negotiations, which opened on an optimistic tone and which the USSR permitted to reach an advanced stage before it created a deadlock.

The British, believing that the Yugoslav offer may be bona fide, intend to open negotiations with Yugoslavia at once. They are aware, however, that the USSR, through Yugoslavia, may be attempting to develop a wedge between the US and the UK, and they consequently can be expected to exercise appropriate caution.

**TOP SECRET**

TOP SECRET

## NEAR EAST-AFRICA

Saudi Arabia Seeks Settlement of Middle East Problems

King Ibn Saud's strong representations to the US concerning UK policy in the Middle East are designed to convince the US that the UK should be persuaded to abandon its alleged support of the Greater Syria aspirations of King Abdullah of Transjordan. Ibn Saud believes also that the recent treaties between Iraq and Transjordan and between Iraq and Turkey were fostered by the UK; he considers them directed against himself and, by implication, against the US oil position in Saudi Arabia.

To attain his objective, Ibn Saud has suggested a comprehensive multilateral US-UK-Arab agreement, to be drawn up by the two Great Powers and then to be submitted to the Arab States for ratification. He has implied that the Arab States would be willing to accept compromise solutions for Palestine and the Sudan in exchange for a US-UK guarantee to preserve the status quo of the Arab countries. Such a guarantee, in effect, would prevent the realization of Greater Syria.

Ibn Saud believes that such an agreement would appeal to the US and UK as a promise of greater stability in the Middle East and, consequently, of greater defense against Soviet expansion. In view of increasing xenophobia in Egypt and Syria and of extreme anti-Zionism in Iraq and the Levant States, however, it is doubtful whether any of the Arab States (other than Saudi Arabia) would consider Ibn Saud's plan, particularly if it were presented by the US and the UK. His demarche tends to emphasize the very real differences among the Arab States and indicates the weakness of the Arab League position on such international questions as Palestine and the Anglo-Egyptian dispute.

TOP SECRET

TOP SECRET

## WESTERN HEMISPHERE

Canada's Apprehension Over Diminishing Dollar Reserves

Canada's rapidly diminishing dollar reserves have recently prompted the Government to review its fiscal and trade policies. As a result, Canada may soon consider restricting imports costing US dollars, unless some other means (currently obscure) become available by which Canada can substantially reverse its increasingly unfavorable balance-of-payment position with the US. Recent restrictive steps in this direction included the prohibition of private holdings in excess of US\$ 10 by resident Canadians and control of their travel expenditures in the US.

Canada had at war's end a huge accumulation of US dollars and gold and has paid the US cash for imports (which are at an all-time high) while exporting to other countries on credit. The result has been a rapid and alarming depletion of Canada's gold and dollar reserves. Canadian officials hoped that the increasingly unfavorable balance-of-payments trend would be reversed by: (1) the successful promotion of multilateral trade, as provided in the ITO charter under discussion at the Geneva Conference; (2) US tariff reductions; (3) dollar loans by the International Monetary Fund and International Bank to countries now purchasing from Canada on credit; and (4) sterling convertibility arrangements with the UK. Now, however, Canada appears to be pessimistic regarding the prospects of an early reconstruction of the world economy. Public and private warnings have been sounded recently that Canada cannot permit current conditions to continue much longer; however, as late as 21 June, a "responsible official" was quoted as "certain" that no restrictions against US imports would be imposed during 1947. Meanwhile, Canadian officials seem to be hoping that any developing US aid-for-Europe program will somehow result in vastly increased US purchases from Canada.

Critical Phase of Brazilian Politics

The confidence of the Brazilian people in the Dutra Government, as expressed in the 19 January elections, is being rapidly dissipated by the Government's helplessness in the presence of the country's deepening economic crisis. The visible results are: (1) increasing social unrest; (2) a trend of public opinion away from Dutra and his advisers; and (3) increasing opportunities for political demagogery, agitation, and manipulation.

TOP SECRET

Rumors that ex-President Getulio Vargas is maneuvering to regain political control have become too insistent and too numerous to be discounted. The plans attributed to him call initially for electoral control of the states of Pernambuco, Rio Grande do Sul, and Minas Gerais -- in all of which Dutra already has a foothold -- and then for the recapture of control in the state of Sao Paulo. At this juncture, it is impossible to estimate Vargas' chances of success, but with the Communist Party out of the way he is a logical rallying point for an opposition movement and a strong claimant to any strength the Government may deliver to its enemies through the failure of its economic and social policy.

The Government Party is rumored to be working toward the formation of a new anti-Vargas and anti-Communist coalition strong enough to defeat Vargas' scheme. Such a party would combine elements of the PSD, the Partido Social Progressista of Sao Paulo (the political machine of present Governor Ademar de Barros, which is vaguely committed to Socialism), and the small Partido Republicano of Baia and Pernambuco (the oldest and most conservative of the Brazilian parties). No report has been received as to the probable attitude of the UDN, (which up to the present has been the leading opposition party) but, as it is ardently anti-Vargas, it is likely to support the Government Party.

Meanwhile, the Brazilian Army, which has at all times been the major source of Dutra's strength, will continue to be Brazil's chief bulwark against political instability. Although some Army leaders have expressed dissatisfaction with Dutra's handling of the nation's economic problems and with his belated action against Communism, the Army apparently intends to support Dutra throughout his present administration.

#### Prospects for Recognition of the Somoza Puppet Regime

The American Republics, as a result of informal consultations over a period of weeks, are unanimously withholding recognition from the regime installed by the recent coup in Nicaragua. Inside Nicaragua, however, Anastasio Somoza is in full control, despite a bitterly hostile public opinion. On 3 August a Constituent Assembly is to be chosen to write a new constitution, to "elect" a new President and Congress, and to reorganize the judiciary. Continued non-recognition, though undoubtedly embarrassing to Somoza, is not likely to prevent him from carrying

**TOP SECRET**

out this plan of action; and once the present puppet regime has been sanctioned by a Constituent Assembly, the American Republics' common stand on non-recognition will be difficult to maintain.

The Dominican press is already demanding recognition of the Somoza-puppet (Lacayo) regime. Argentina is reported to look favorably on the proposed Constituent Assembly. The President of Panama has declared that there is no alternative to recognizing the Constituent Assembly, if the appearances of electoral respectability are maintained. Somoza can still be counted on to use every means at his disposal to retain power in Nicaragua and to persuade the American Republics to recognize the Government he will have the Assembly elect. The fact that the Rio Conference is to be convened in the near future will strengthen Somoza's hand, because many of the American Republics will wish to have this situation resolved before the Conference, so as to keep recognition problems off the agenda.

**TOP SECRET**

50

TOP SECRET

53

## CONTENTS

	Pages
<b>TRENDS IN BRIEF . . . . .</b>	<b>i-iv</b>

**WESTERN EUROPE**

<b>Eased Strike Situation in France . . . . .</b>	<b>1</b>
---	----------

**EASTERN EUROPE**

<b>Apparent Soviet Plans in Eastern Europe . . . . .</b>	<b>2</b>
<b>Further Communist Moves in Hungary . . . . .</b>	<b>3</b>

**NEAR EAST-AFRICA**

<b>Egypt Breaks Arab League Air Solidarity . . . . .</b>	<b>4</b>
--	----------

**THE AMERICAS**

<b>German Assets in Latin America . . . . .</b>	<b>5</b>
<b>Argentine Purchase of UK Jet Planes . . . . .</b>	<b>5</b>

Document No. 53NO CHANGE in Class.  DECLASSIFIED

Class. CHANGED TO: TS S C

DDA Memo, 4 Apr 77

Auth: DDA REG. 77/1763

Date: 7/1/78 By: 023

TOP SECRET

TOP SECRET

TRENDS IN BRIEF

GENERAL

Leftist opinion has responded to Secretary Marshall's Harvard pronouncement on economic aid to Europe by advocating that the program be executed through the UN's Economic Commission for Europe (ECE), of which the USSR recently became a member. At the same time Trygve Lie, UN Secretary General, at the suggestion of the Polish and Czech delegations, has indicated that the matter might be referred to the Economic and Social Council (ECOSOC) to determine whether the proposed program falls within the scope of the ECOSOC resolutions establishing the ECE.

These developments are presumably inspired by the USSR, which last April sought unsuccessfully to subject US aid to Greece and Turkey to supervision by the Security Council. ECE supervision would almost certainly result in the obstruction of any program which did not include generous aid for the Soviet-dominated states of Eastern Europe. To bypass ECE, however, would as certainly provoke a clamor that the UN was being disregarded and undermined.

WESTERN EUROPE

The wave of strikes in France is expected to subside (page 1).

EASTERN EUROPE

The USSR has accelerated its program for the cultural, economic, and military coordination of its satellites (page 2).

The Communist Party in Hungary is moving rapidly and vigorously to ensure its control of the country (page 3).

Soviet unwillingness to accept an exchange point inside Soviet territory for international air traffic has again been demonstrated by Soviet insistence in recent negotiations with the Dutch that Berlin alone be the exchange point. The Dutch delegation, which had been invited to Moscow under circumstances which implied that the USSR would acquiesce to reciprocal Amsterdam-Moscow service, broke off discussions when the contrary Soviet position became clear.

TOP SECRET

Deterioration of the Greek situation continues unchecked. Soviet determination to forestall and frustrate the US aid program is evident. In doing so the USSR could expect not only to gain such local advantages as control of Greece and the Aegean, but also to convince other states that hope of effective US support is illusory and to persuade American opinion that the "Truman Doctrine" is futile. By techniques exemplified during the Spanish Civil War, the USSR can, without incurring direct responsibility, conduct a decisive intervention in Greece in the absence of vigorous counteraction. Prerequisite to the defeat of its intentions is the sealing off of the northern Greek frontier, an achievement beyond the capabilities of the Greek Army in its present condition.

## NEAR EAST-AFRICA

Ratification by Egypt of a "Bermuda" type air agreement with the US represents virtual repudiation of the Arab League Aviation Agreement of 1946 (page 4).

The USSR is intensifying its pressure on Iran in order to extend its influence in Iran generally, as well as to induce the Iranians to grant the oil concession. Soviet warnings to Iranian representatives in Moscow, reported Soviet reinforcements near the Iranian border, and Soviet connivance with dissatisfied tribal elements in northern Iran are causing apprehension among Iranians over the possibility of forceful action by the USSR. Iran is therefore repeating its requests for US aid and is attempting to postpone any decision on the oil concession.

Egypt's efforts to gain support for its case against the UK have taken the form: (1) of allegations by Premier Nokrashy that the Western members of the Security Council might settle the issue on a basis of political expediency without regard to the rights of the small States; and (2) of implied threats that, in such an event, Egypt might turn toward the USSR. These tactics serve the double purpose of preparing the Egyptian people for an unfavorable decision by the SC and of attempting to force US support for Egypt's case.

## FAR EAST

French determination not to deal with Ho Chi Minh's present Vietnam Government has been indicated by an admittedly deliberate attempt

TOP SECRET

TOP SECRET

to present Ho with unacceptable terms. French colonial officials desire that Ho's Government be reorganized to exclude Communist elements or be replaced by a more conservative regime, possibly under the former emperor of Annam, Bao Dai. If neither development materializes within the next few months, French military leaders may attempt to destroy Ho's Government.

#### THE AMERICAS

Argentina may not support the recommendations of a special inter-American commission regarding the German assets problem in Latin America (page 5).

Argentina's purchase of jet aircraft from the UK does not necessarily suggest a weakening of its professed desire to support the US arms standardization program (page 5).

Communist reactions to Assistant Secretary Braden's departure from the Department of State have shown a surprising lack of uniformity. In Argentina, for example, the Communist newspaper LA HORA describes it as a "merited defeat" which marks the termination of the US "big-stick policy," adding, however, that the "principles of Roosevelt have been forgotten in the US" in such fashion as to make unlikely any notable change as a result of this turn of events. In Peru, on the other hand, the Communists are insisting that Braden's replacement, because it "foreshadows" a merger between the "forces of imperialism" and the "reactionary elements in Argentina," represents a reversal for South American Communism.

Reported large sales of Brazilian rice to American firms have awakened British fears regarding Brazil's future capacity to fulfill International Emergency Food Council (IEFC) rice allocations to India and other countries. The UK believes the problem would be solved if the US were to inform the Brazilian Government that it will henceforth permit no imports in contravention of IEFC allocations. US observers disagree, on the grounds that: (1) the rice in question is probably intended for speculative sale abroad rather than for import into the US; (2) Brazil is about to withdraw from the IEFC; and (3) Brazil would rather have its foreign exchange holdings in dollars than in sterling.

TOP SECRET

TOP SECRET

The recent rebel counter-attack against the Paraguayan Government's vanguard has temporarily halted the latter's attempt to outflank the insurgent troops and force them to surrender. Approximately one-fourth of the 4,000 rebel forces were committed in the battle, and the rebel radio station at Concepcion claims that the Government lost 600 men (killed or captured). The rebel thrust was quickly repelled, but Government military spokesmen describe it as a "brilliant" maneuver which, but for the rebels' manpower deficiencies, would have caused the Government real embarrassment. The major political result of the engagement is that officials in Asuncion are now speaking less confidently about early termination of hostilities; they admit that they must reorganize their forces before renewing the offensive, and that they must make a new operational plan.

TOP SECRET

TOP SECRET

WESTERN EUROPE

Eased Strike Situation in France

The wave of strikes in France is likely to subside as a result of Premier Ramadier's skillful handling of the recent railway workers' strike and the realization by Communist and General Confederation of Labor (CGT) leaders that strikes which disrupt national life are unpopular even with the workers. In order to avoid being outflanked on their left, the Communists, since they left the Government, have supported workers' demands for higher wages. This policy has encouraged strikes and demonstrations against governmental authority without recapturing working-class support for the Party. Moreover, a marked cynicism in regard to all parties and politicians is becoming more evident among the general public. Under these circumstances, a large section of the French people would probably turn to the "mystique" of De Gaulle, rather than to the Communist Party, should the government collapse as the result of a generalized strike movement at this time. To avoid this eventuality, the Communists may drop their present campaign for higher wages and take a strong line in favor of price reduction and increased production to "safeguard republican institutions," hoping to establish a reputation for political responsibility before they make another determined bid to participate in the Government.

TOP SECRET

TOP SECRET

EASTERN EUROPE

Apparent Soviet Plans in Eastern Europe

The USSR apparently has accelerated its program for the cultural, economic, and military coordination of its satellites. Although the Truman Doctrine may have stepped up the USSR's timetable, events of the past few weeks are all essential components of the basic plan which the USSR had probably intended to consummate before the withdrawal of its occupation troops.

As part of this accelerated program, however, the USSR may have modified what is believed to have been the first phase of its plan for Eastern Europe. The plan was thought to have envisaged the formation of a South Slav or Balkan Federation, including Yugoslavia, Bulgaria, Albania, and probably Greek Macedonia. The next step would then have been a Danubian Federation, comprising Hungary, Rumania, and possibly Czechoslovakia. It now appears that the USSR may have abandoned this concept in favor of a less formal system of control through Communist Party channels and a network of interlocking cultural, economic, and military agreements and alliances. Poland, Czechoslovakia, and Yugoslavia are already linked to each other and the USSR by such an arrangement. The recent Rumanian-Yugoslav accord and the apparently imminent Rumanian-Bulgarian agreement will enlarge the circle. With Hungary now more effectively under Soviet control, that country may also be expected to become an integral part of the network.

To the USSR such a network of alliances would have several advantages over a formal federation. A South Slav Federation would be separated from the USSR by non-Slav Hungary and Rumania. Inclusion of the latter countries on such a basis would create a larger coordinated area which would be of obvious economic advantage to the participants and to the USSR. As long as the USSR considers membership in the UN profitable, it will avoid any formal federation in Eastern Europe that would bar UN membership to the participating states. Moreover, as a formal federation would intensify strong nationalist opposition, the USSR probably prefers a less formal arrangement during the present transitional stage preceding outright incorporation of these countries into the USSR.

The recent discussions in Belgrade among Balkan representatives, therefore, were probably merely another step toward implementation of

TOP SECRET

TOP SECRET

the master plan for the Eastern European satellites. The talks appear to have been held: (1) to draft a Yugoslav-Rumanian accord; (2) to resolve Yugoslav-Bulgarian politico-military problems; and (3) possibly to formulate more detailed plans for intensified military activity in support of the Greek guerrillas. The presence in Belgrade of such a large number of Eastern European leaders may also have been welcomed as an opportunity to conduct a war of nerves directed at Greece and to exploit for propaganda purposes the theme of Communist and Slav solidarity under the aegis of the USSR.

Further Communist Moves in Hungary

Since its assumption of power in Hungary, the Communist Party has moved swiftly and forcefully to weaken opposition by the Smallholder Party and to ensure political and economic domination of the country. The appearance of normal constitutionality has been maintained in order to preclude interference from the UK and the US or action by the UN, and the semblance of a balance of power among the political parties in the coalition government has been preserved.

Prior to the coup the Communists tried unsuccessfully to nationalize the four leading Hungarian banks. On 1 June, however, the Council of Ministers, by decree, placed thirteen principal banks under state control and assigned to each a ministerial commissioner to control its activities and to preserve its capital, thereby ensuring complete Communist domination of 75-80% of Hungarian industry. The extension to 30 September 1947 of emergency powers by the National Assembly permits the Cabinet Council to continue to govern by decree; the present Communist-controlled Cabinet will thus be unopposed in its administration of Hungarian affairs. Initial steps have also been taken to avoid a repetition of the Communist defeat in the free elections of November 1945. In preparation for the control of future elections, Party members have been sent to study electoral methods employed in Poland, Bulgaria, and Rumania, and a new electoral law is being drafted which will further exclude opposition elements from the polls.

- 3 -  
TOP SECRET

TOP SECRET

## NEAR EAST-AFRICA

Egypt Breaks Arab League Air Solidarity

The action of Egypt, most influential of the seven Arab League states, in ratifying a bilateral, "Bermuda" type air transport agreement with the US, amounts to virtual repudiation of the Arab League Aviation Agreement. Abandonment of this agreement appears to reflect Egypt's fear that it would be by-passed in the development of international air routes, as well as the hope of obtaining further political and economic benefits from the US.

The Arab Agreement was an attempt to reserve to the League states control over all commercial aviation within their borders. While it was never formally ratified by the Arab Governments, it did serve to block all efforts of non-Arab international airlines to conclude permanent air agreements with the member states.

The US obtained a special provisional agreement with Egypt in 1945 in connection with the sale of US air equipment to Egypt and the transfer to Egypt of Payne Field. Egypt, however, has not accorded equally advantageous rights to other air carriers. These carriers in turn have refused to accept permanent agreements on the restrictive terms offered and have been operating under temporary rights.

The direct consequences of Egypt's action will be: (1) increased probability that Syria, Lebanon, and Iraq will ratify similar pending agreements with the US; (2) demands on Egypt by the UK, Netherlands, Sweden, France, and Czechoslovakia for bilateral agreements embodying the same privileges and regularizing their present interim transport rights; (3) general introduction of International Civil Aviation Organization principles throughout the Near East; and (4) abandonment of Arab hopes to dominate international air operations in the Near East, with resultant concentration by Arab airlines on local and feeder air systems.

TOP SECRET

TOP SECRET

**THE AMERICAS****German Assets in Latin America**

The Special Commission on Enemy Property of the Inter-American Economic and Social Council, which has been studying the problem of a half-billion dollars of seized German assets in the American Republics and the latter's reparations claims against these assets, has now sent its conclusions to the 21 Governments concerned. Brazil, Chile, Haiti, Mexico, and the US were represented on the Commission; they have recommended that: (1) German assets in the 21 American Republics be made available to meet American Republics' reparations claims against Germany; (2) any republic whose claims exceed its holdings of German assets be permitted to meet its deficiency by drawing upon funds deposited in a common pool by the republics whose holdings exceed their reparations claims; (3) any surplus be turned over to the Inter-Allied Reparation Agency for use on behalf of the United Nations devastated by the war; and (4) each of the republics dispose of the seized German assets situated within its territory in accordance with its own legislation. The Commission also recommended a uniform definition of "German assets" and a uniform procedure for validating reparations claims.

The idea of pooling the seized German assets, though first presented to the Commission by the US delegate, was supported by the entire Commission. Argentina (whose holdings of German assets amount to some two-thirds of the total held by all 20 Latin American Republics) might be tempted to seek reasons for opposing this solution. Argentina was represented at the Commission's sessions only by an observer; and if, as appears probable, its holdings greatly exceed its total relevant claims, the effect of the Commission's plan would be to make Argentina a large (perhaps the principal) contributor to the common fund. The countries whose claims are known to exceed their assets, and might therefore benefit from the common fund, are Brazil, Chile, Colombia, Cuba, and Paraguay.

**Argentine Purchase of UK Jet Planes**

The recent purchase by Argentina of jet aircraft from the UK does not necessarily mean that Argentina's professed desire to cooperate in the proposed hemisphere arms standardization program is weakening. Argentina is determined to develop a modern air force and to eliminate the present air superiority of Brazil. To this end, the Argentine Five-

**TOP SECRET**

Year Plan calls for the rapid development of a domestic aircraft industry capable of manufacturing Argentine types of military and transport aircraft, as well as aircraft engines. This plan, however, seems unrealistic in the light of the limited financial and technical resources of the country. Neither the reported importation of large numbers of Italian technicians nor other anticipated European assistance will overcome these difficulties.

While Argentina will probably cooperate with the US in drafting the arms standardization program, it may be expected to guard its freedom of action in the event that the US does not make modern types of aircraft available to the signatories.

30

~~TOP SECRET~~

52

## CONTENTS

	Pages
TRENDS IN BRIEF . . . . .	i - iv

## WESTERN EUROPE

Soviet Coup in Austria Unlikely . . . . .	1
---	---

## EASTERN EUROPE

Soviet View of Prospective Developments in Eastern Europe.	2
Possible Change in the Rumanian Government . . . . .	3
Soviet Plans for the Hungarian Army . . . . .	3
Expected Soviet Opposition to US Airlines in Finland . . . .	4
Apparent Soviet Maneuver to Obtain US Supplies . . . . .	4

## NEAR EAST-AFRICA

Ibn Saud Seeks Greater Benefits from Saudi Arabia's Oil. . .	6
--	---

## THE AMERICAS

Publisher's Views on Mexico's Problems . . . . .	7
--	---

52

Document No. \_\_\_\_\_  
 NO CHANGE in Class.

DECLASSIFIED  
 Class. CHANGED TO: TS S C  
 DDA Memo, 4 Apr 77  
 Auth: DDA REG. 77/1763  
 Date: 27/1/78 By: 073

~~TOP SECRET~~

TOP SECRET

TRENDS IN BRIEF

WESTERN EUROPE

An imminent Soviet coup in Austria, on the pattern of recent developments in Hungary, appears unlikely (page 1).

EASTERN EUROPE

The existing regimes in Eastern Europe are transitional and their further development along Soviet lines is to be anticipated, according to an authoritative Soviet publication (page 2).

A Soviet-engineered change in the Rumanian Government may be indicated by Vice Premier Tătărescu's recent attack on the Groza Government (page 3).

The new Hungarian regime is expected to strengthen the Hungarian Army in order to maintain itself in power and to assure future Soviet military control (page 3).

US airline operations into Finland will probably encounter Soviet opposition, despite the USSR's acquiescence in an interim US-Finnish air pact (page 4).

A Soviet desire to obtain needed US goods through the USSR's satellites is suggested by recent Yugoslav negotiations with US firms (page 4).

Soviet propaganda against Western European Socialism has recently been intensified. The theme -- denunciation of schismatic Social Democratic efforts to divide and mislead the proletariat -- is as old as Bolshevism, but the timing and terms of the current intensification of this campaign show it to be a reaction to the recent anti-Communist tendencies of the French and other Western Socialist parties. Its evident purposes are to play upon the misgivings existing within these parties with regard to the wisdom of an anti-Communist policy, to divide and intimidate them, and thus to neutralize their political effectiveness. The Kremlin has long considered Western European Socialism to be a primary obstacle to the success of its policy in Europe.

TOP SECRET

**TOP SECRET**

Current Kremlin concern over all phases of national security is reflected in two recent decrees fixing severe penalties for the disclosure of military, diplomatic, scientific, and economic information. The decrees cover virtually all information with intelligence significance, and specify that violators will be tried before military tribunals. These decrees, together with a series of other recent security measures, appear designed: (1) to conceal Soviet military and economic activity; (2) to warn the Soviet people not to talk to foreigners; and (3) to intensify nerve warfare against the USSR's neighbors. The decrees will, furthermore, destroy any hope for Soviet-US scientific and technical exchanges.

The Bulgarian Government, in intensifying its efforts to liquidate the Opposition, has ordered immediate implementation of the long-neglected, compulsory labor-mobilization law. Conscription into labor camps of many legitimately-employed Opposition sympathizers belies the stated purpose of the law, which is to mobilize "idlers" for Government work, and corroborates the statement made last August by Communist Minister of Interior Yugov that the law was directed against "those who feign occupations but in reality are agents of foreign powers." The recent order has already affected an estimated 20,000 persons, most of whom have connections with the Opposition or with the missions of the Western Powers.

#### NEAR EAST-AFRICA

Ibn Saud is seeking to gain financial advantage and enhance his prestige among the Arab states by exacting onerous concessions from the Arabian-American Oil Company (page 6).

Closer political relations between Turkey and the US are probably the ultimate aim of a new Turkish policy of encouraging foreign financial investments in Turkey. This policy represents a reversal on the part of the Turkish Government, which for many years had discouraged foreign investments in the country, and should permit the Turks to carry out more rapidly their plans for industrialization and increased economic production generally. As US firms may be expected to take advantage of the opportunity thus presented, the Turks doubtless hope that their new policy will lead to stronger financial and economic ties with the US and consequently will result in closer political relations between the two countries.

Apprehension over the Turkish-Iraqi Treaty of Friendship (negotiated in March 1946 and now before the Iraqi Parliament for ratification)

**TOP SECRET**

**TOP SECRET**

has been expressed by the Governments of Syria and Saudi Arabia. Strong opposition has also been aroused in Iraq itself among moderate as well as extreme Arab nationalist elements. Following so closely the conclusion of the Iraqi-Transjordan agreement, the Treaty is interpreted by its opponents as threatening further the solidarity of the Arab League and as weakening the Arab front on the questions of Palestine and Anglo-Egyptian treaty revisions.

**FAR EAST**

Insistence by Australian Minister for External Affairs Evatt upon a UK Commonwealth Conference at Canberra early in August to unify Commonwealth policy on a Japanese Peace Treaty illustrates Australia's desire to assume leadership in the matter and discloses divergences in Commonwealth opinion on procedures for discussing the Treaty. Evatt maintains that the Japanese Peace Treaty should be drafted outside the framework of the Far Eastern Commission; the New Zealand Government, however, favors utilizing the Commission. Evatt's maneuvers to hold unilateral discussions with General MacArthur on the Japanese Peace Treaty prior to the Canberra Conference have so far been unsuccessful. However, if the Canberra Conference supports the Australian position, Evatt may attempt to initiate discussion on the Treaty following his arrival in the US to attend the UN General Assembly.

Sentiment in Burma in favor of dominion status, at least on an interim basis, rather than independence has been encouraged by Pandit Nehru's acceptance of interim dominion status for Hindustan. Although the Burmese Anti-Fascist League recently adopted a resolution demanding Burma's establishment as an independent Republic, the League is sending a representative to London to discuss the question of dominion status with UK officials. The Burmese Constituent Assembly may also approve such status, provided it does not prejudice Burmese demands for independence.

The Indonesian Republic's reply to the Dutch note of 27 May contains counterproposals which accept in principle the Dutch suggestion for a joint interim federal government for the Indies as a whole. In many particulars, however, the Republic disagrees with Dutch recommendations. Preliminary reaction in the Dutch Government is one of disappointment. Resolution of the differences between the Dutch and Indonesian proposals will require protracted negotiation, intensifying the strain on Netherlands resources and patience. Limited military action by the Dutch in Java continues to be a real possibility.

**TOP SECRET**

TOP SECRET

THE AMERICAS

A Mexican observer examines his country's current economic and political situation and suggests that Mexico should consider the possibility of linking its economic destiny with that of the US (page 7).

President Gonzalez Videla, who recently removed three Communist ministers from the Chilean Cabinet under pressure from many anti-Communist elements, has now received a pledge for full support from his Radical Party as long as his administration does not renew its co-operation with the Communists. With the several contending Radical factions thus united behind him, Gonzalez is in a position to make a strong bid for support from other non-Communist parties in Chile. A further indication of determination to cut himself off from erstwhile Communist supporters is to be found in his uncompromising reply to a recent memorial from a Communist-controlled union which called upon the Government to refrain from using armed force to break the current bus strike in Santiago.

**TOP SECRET**

WESTERN EUROPE

Soviet Coup in Austria Unlikely

The recent Soviet coup in Hungary has suggested to many observers that Austria might next be the scene of a similar maneuver. The situation in Austria, however, is not analogous to that in Hungary. Specifically, only Soviet troops occupied Hungary, while Austria and Vienna itself are divided into US, UK, French, and Soviet Zones and are occupied by troops of the respective powers. Moreover, the strength of the Austrian Socialist Party, which supports the conservative Peoples Party as an anti-Communist force, has no counterpart in Hungary, where the major conservative party lacked the support of a united and determined workers' party.

Only if the domestic economy of Austria collapses is it likely that "popular" unrest could be manipulated by the USSR to place the Communists in control of the Government. A Soviet coup in Austria, therefore, is unlikely so long as US policy in that country continues to be supported by adequate supplies of coal and food.

TOP SECRET

## EASTERN EUROPE

### Soviet View of Prospective Developments in Eastern Europe

A recent article in "World Economies and World Politics," an authoritative Soviet publication, describes the existing regimes in Eastern Europe as transitional and anticipates their further development along Soviet lines:

These regimes are considered to owe their existence (1) to the discredit incurred by the traditional ruling class and its political parties through collaboration with German fascism before and during the war; (2) to the unity of the working class, achieved through Communist leadership of the resistance movement; and (3) to the "moral, diplomatic, and economic support" of the Soviet Union, without which they "could scarcely have withstood the pressure of reaction, both from the outside and from within." The resultant political systems are regarded as "democracies of a new type," not socialistic (in the Soviet sense), but a "peculiar new transitional form," characterized by retention of the external forms of parliamentary democracy without prejudice to actual domination by the workers rather than by a capitalist minority.

The wise gradualism of the transitional regimes is illustrated with reference to land reform. Nowhere has there been repeated the error made by the Hungarian Communists in 1919, when they sought to convert nationalized landholdings directly into state farms without passing through the essential intermediate stage of land distribution to the peasants to satisfy their land hunger (as was done in the USSR, 1917-1928). The present policy of dividing nationalized estates among the peasants is transitional; as in the USSR, collectivization will follow in due time.

TOP SECRET

**TOP SECRET**

**Possible Change in the Rumanian Government**

Vice Premier Tatarescu's recent attack on the Groza administration, made with the full knowledge of Soviet authorities in Bucharest, may foreshadow a Soviet-engineered change in the Rumanian Cabinet. In such event, the USSR might well present Tatarescu as the opposition leader and by "constitutional" means install him as the head of a new Government. Such action would be calculated to create the impression abroad that democratic processes are operating in Rumania, while actually it would be designed to strengthen Soviet control in that country.

Tatarescu is ideally suited to implement such a program. One of Europe's most conniving and opportunist politicians, his wartime collaboration with the Nazis makes him a pliable stooge of the Communists who, at any moment, could try him as a war criminal. By allowing Tatarescu to criticize the Groza Government and by installing him as the head of a new administration, the USSR may also hope to deprive the legitimate opposition of much of its ammunition and to transfer the blame for Rumania's plight from the USSR to the Groza Government.

**Soviet Plans for the Hungarian Army**

The Soviet-backed Government in Hungary is expected to take immediate steps to strengthen the Hungarian Army in order to maintain itself in power and to assure Soviet military control following the ratification of the Austrian Peace Treaty and the withdrawal of Soviet troops. The Nagy Government had, for economic reasons, been reluctant to comply with Soviet requests that the Hungarian Army of only 12,000 men be strengthened, and the USSR has hesitated to support an Army of doubtful loyalty. However, Nagy was forced during the past year to acquiesce in the gradual purge of a large number of anti-Communists from the Army. Available information now suggests that the immediate plan of the USSR is to train and equip an Hungarian Army of 25,000 men, which may eventually reach the strength of 65,000 permitted by the Peace Treaty. The new regime can also be expected to follow the Bulgarian and Rumanian pattern by creating nuclei of armed Communists in youth groups and trade unions.

**TOP SECRET**

**TOP SECRET**

Expected Soviet Opposition to US Airlines in Finland

It is likely that American Overseas Airlines (AOA) operations into Helsinki, which will be inaugurated 20 June, will encounter difficulties with Soviet authorities in spite of original Soviet acquiescence in the US-Finnish interim air agreement.

Past Soviet policy of permitting Finland to grant interim air rights to Sweden, the UK, and the US -- pending ratification of the Peace Treaty -- has been in sharp contrast to the rigid control of civil aviation exercised in all other areas under Soviet domination. Soviet leniency with regard to Finland had appeared to indicate Soviet intentions to make Helsinki an extraterritorial traffic exchange point for northern Europe.

It now appears, however, that the USSR has decided to restrict foreign air operations into Finland. The Soviet Chairman of the Allied Control Commission has refused a Swedish request for a special flight (in connection with the Finnish Diet's 40th anniversary) on the basis that such flights must have prior approval of the Soviet Military Commander. This action conforms to Soviet insistence in the satellite countries that US flights must be similarly approved. Finnish authorities fear that the USSR may now object to AOA's plan for a passenger and cargo stop at Stockholm on the grounds that the original Soviet permit was granted only for a direct US-Finnish air-traffic exchange. In any event, the USSR may be expected to employ harassing tactics in some form in order to impede AOA operations; this would be in line with the recent stiffening of Soviet policy toward the US in civil air matters.

Apparent Soviet Maneuver to Obtain US Supplies

A Soviet desire to obtain urgently-needed goods of US manufacture through its satellite states is suggested by recent Yugoslav negotiations with US commercial interests. The USSR would probably permit the supplies to remain in the purchasing country, in which case such transactions would also help to relieve the pressure from these countries on the USSR for economic support.

A Yugoslav agreement with Ford Motors for the importation of automotive equipment (see Weekly Summary of 9 May, page 8) has now been followed by a two million dollar contract with another US manufacturer for fire-fighting equipment suitable for protection of air fields.

**TOP SECRET**

**TOP SECRET**

Analysis of the quantities involved in the order discloses that the equipment represents at least three times the maximum normal requirements of Yugoslav civil and air installations. These considerations, coupled with the expenditure of such a substantial portion of Yugoslav dollar resources, strongly suggest covert Soviet financial participation and the probability that a large quantity of the equipment is destined for other satellite states and the USSR.

**TOP SECRET**

TOP SECRET

NEAR EAST-AFRICA

Ibn Saud Seeks Greater Benefits from Saudi Arabia's Oil

The normally excellent relations between the Arabian-American Oil Company (Aramco) and the Saudi Arabian Government have, during the past few months, been ruffled by King Ibn Saud's determination to improve his position vis-a-vis Aramco, both financially and in matters of prestige. Negotiations are in progress to settle the "misunderstanding" which has developed over the interpretation of the gold clause of Aramco's 1933 contract. Under this contract, royalties were to be paid in gold sovereigns, but the dollar rate of gold in Jidda is today approximately twice its New York rate. Ibn Saud is demanding the Jidda rate, and thus in effect is requiring royalties nearly twice those now being received by the other Middle Eastern oil-producing countries. Aramco claims it could not compete on this basis.

Complicating the settlement of this problem is the question of the trans-Arabian pipeline. Ibn Saud demands additional royalties for all oil piped across his deserts, but Aramco maintains that such added costs would offset the anticipated saving on shipping charges through the Suez Canal. Ibn Saud also intends to take up with Aramco in the near future the question of the equal treatment by Aramco of Saudi and American laborers. In addition he will insist that foreign workers, primarily Indians and Italians, receive no better treatment than Saudi workers. Both of these steps indicate Ibn Saud's increasing preoccupation with matters of prestige.

To lend force to his arguments, Ibn Saud has suggested that he could expropriate Aramco after compensating it for its investment (presumably on his own terms). Although Aramco negotiators believe that the King has no intention of resorting to such drastic measures, they are convinced that some way must be found to increase the benefits he is receiving.

Ibn Saud's immediate purpose in these demands is to increase his income. Almost as important, however, in view of the criticism Ibn Saud has received from other Arab states, is his determination to show the Arab world that he is no pawn in America's "pro-Zionist, imperialistic" game.

**TOP SECRET**

**THE AMERICAS**

**Publisher's Views on Mexico's Problems**

A critical "re-examination" of the economic and political situation in Mexico by a leading Mexican observer and publisher has provoked a widespread public debate concerning: (1) the achievements of the 1911 "Revolution" (whose heirs still hold power in Mexico); and (2) the possible wisdom of consciously associating Mexico's economic destiny with that of the US.

The writer, Daniel Cosio Villegas, insists that the term "Revolution," as used in Mexican political discussions, is now devoid of meaning because the movement's original goals have already been achieved. The overthrow of the Diaz dictatorship, Mexico's widely-discussed agrarian reforms and social legislation, the development of a nationalist outlook, and the expulsion of foreigners were all, he feels, genuine accomplishments; but they concerned issues which are no longer relevant, and the movement, as a result, no longer possesses a constructive program. Cosio, questioning the democratic character of the regime the Revolutionary group has built in Mexico, points out that: (1) at no time since the Revolution has a party opposed to the Government in power won an election; (2) the legislative branch of Mexico's Government is today as servile as it was under Diaz; (3) the agrarian reform has not bettered the living conditions of the Mexican peasant; and (4) the integrity of Mexico's courts is open to question. The author concludes his analysis with the observation that Mexico must give careful thought to the possibility that its "regeneration" may have to come from the US.

**TOP SECRET**

38

51

**TOP SECRET****CONTENTS**

	<b>Pages</b>
<b>TRENDS IN BRIEF . . . . .</b>	<b>i - iv</b>

**GENERAL**

<b>UK-USSR Trade Negotiations . . . . .</b>	<b>1</b>
<b>Yemen Invites US Air Assistance . . . . .</b>	<b>1</b>

**WESTERN EUROPE**

<b>Efforts to Moderate the Anti-Soviet Attitude of Swedish Officers . . . . .</b>	<b>3</b>
<b>Soviet Attitude Toward German Minister-Presidents' Conference . . . . .</b>	<b>3</b>

**NEAR EAST-AFRICA**

<b>Iranian Army Intrigue Against the Kurds . . . . .</b>	<b>4</b>
<b>Abd el Krim and North African Nationalism . . . . .</b>	<b>4</b>

**FAR EAST**

<b>Prospects for Indonesian Acceptance of Dutch Note . . . . .</b>	<b>6</b>
--	----------

**THE AMERICAS**

<b>Preliminary Reactions to Somoza Coup . . . . .</b>	<b>7</b>
<b>Morinigo's Improved Position in Paraguay . . . . .</b>	<b>8</b>

6

Document No. 51

NO CHANGE in Class.

DECLASSIFIED

Class. CHANGED TO: TS S C

DDA Memo, 4 Apr 77

Auth: DDA REG. 77/1763

Date: 21/1/78 By: D13

**TOP SECRET**

TOP SECRET

## TRENDS IN BRIEF

### GENERAL

The slow progress of UK-USSR trade negotiations apparently results from a realization on both sides that any substantial increase in trade between the two countries during the next few years is unlikely (page 1).

The organization of a US-operated airline in Yemen, as requested by the Imam, would not materially increase the US-UK military potential but would extend US influence to a strategic position on the Red Sea (page 1).

### WESTERN EUROPE

An attempt to bring the anti-Soviet attitude of Sweden's Armed Forces into line with the Government's policy of conciliation toward the USSR is indicated by a recent report (page 3).

Soviet efforts to control the Munich conference of German Minister-Presidents appear to have failed, but the USSR is expected to attempt to use the conference for propaganda purposes and to obtain economic assistance and raw materials from the Western Zones (page 3).

Proceedings at the annual conference of the UK Labor Party: (1) demonstrated the bankruptcy of the left-wing "rebel" groups; (2) promoted Party unity; (3) strengthened the Labor Government; and (4) produced less criticism of the US than was expected. The Government's domestic and foreign policies won overwhelming endorsement, and Bevin achieved a personal victory.

Continuing popular unrest, particularly disaffection and low morale in the Portuguese Army, has prompted the Salazar Government to make a further bid for the support of military officers. A decree-law has been passed providing for the non-political promotion of junior officers. The Government, however, has made no coordinated effort to improve the general economic situation which is the basic cause of

TOP SECRET

public unrest. General discontent is expected to continue, but as long as the Army remains loyal, the Government can control any public uprising.

The ability of the De Gasperi Christian Democratic Cabinet to resolve Italy's economic crisis and to cope with expected Communist disruptive activities will depend in large measure on the effectiveness of US financial and economic assistance. The Cabinet is expected to weather its first and easiest test early next week by obtaining a vote of confidence from the Assembly. The Communist leader, Togliatti, may even cast a favorable vote, or abstain from voting, in order to give the appearance that his Party is cooperating politically in a program to restore economic stability. The Communists, however, can be expected to attempt to sabotage the Government's program by their familiar tactics of strikes, demonstrations, and intimidation. Togliatti's affirmative vote or abstention, therefore, would be calculated to fix on De Gasperi's Christian Democrats responsibility for any failure of their program to solve Italy's economic problems.

## EASTERN EUROPE

Rumors that top Communist officials will meet in Belgrade during early June may indicate an impending conference on Communist strategy in Eastern Europe. Molotov, Zhadnov, and Vyshinski, and Premier Dimitrov of Bulgaria are said to be on their way to the Yugoslav capital, and it has been publicly announced that Premier Groza of Rumania and the Czechoslovak Minister of Defense and Chief of Staff would visit Belgrade before 12 June. If such a conference takes place, its purposes may be: (1) to counteract the Truman Doctrine in Greece and Turkey; (2) to complete preparations for a possible withdrawal of Soviet troops from Hungary, Rumania, and Bulgaria; and (3) to make final decisions concerning a possible south-Slav or Balkan Federation.

The possibility that the USSR will achieve its 1947 production goals, while still remote, has been heightened by indications that a serious transportation bottleneck is being eased and that, in most basic branches of industry, production has increased considerably since the first quarter of 1947 and is still increasing.

TOP SECRET

TOP SECRET

## NEAR EAST-AFRICA

Soviet subversive operations in Azerbaijan may be facilitated by current efforts of the Iranian commander to sow dissension among the tribes (page 4).

Unless France and Spain can agree quickly on a common policy regarding Arab nationalism in North Africa, Moroccan nationalists may with Arab League support create serious political unrest which could involve all of North Africa (page 4).

Premier Nokrashy's account of Communist plans in Egypt, during a recent conversation with US Ambassador Tuck, appears to have been carefully timed to coincide with Tuck's departure for the US. Nokrashy probably hoped that by "waving the red flag" at this time he might influence the US: (1) to increase its support of the Egyptian Government (particularly in view of the forthcoming Anglo-Egyptian dispute in the SC); and (2) to reconsider its recent decision to refuse the Egyptians' request for an \$80,000,000 loan.

## FAR EAST

The possibilities of Indonesian rejection or conditional acceptance of the terms of the Dutch note of 27 May at present are nearly balanced (page 6).

Prospects for political discussions between France and Vietnam continue unfavorable because of indications that negotiators are unable to agree on the terms of a military armistice. Ho Chi Minh, President of the Vietnam Republic, is reported to have rejected the latest French offer primarily because the French are demanding guarantees that Vietnam units surrender their arms and that French troops be granted free passage through the country. French military officials maintain that such guarantees are essential in order to prevent Vietnam from using an armistice to regroup and re-equip its forces.

Under the inflationary pressure of China's civil conflict, budgetary expenditures of the Central Government rose to a new peak of approximately CN\$ 2.0 trillion for the month of April, 31% higher than March (the first full month of current, large-scale military operations) and about twice the February level. Budgetary receipts in April were also much higher than in previous months, but a substantial part of the increase represented a non-recurring transfer to the National Treasury of the proceeds from past official sales of gold and foreign exchange.

TOP SECRET

**TOP SECRET**

No improvement in China's fiscal position is believed to have occurred in May; during the first half of the month, the national currency note issue increased at roughly the April rate, reaching a record high of CN\$ 7.6 trillion on 17 May.

**THE AMERICAS**

A decision regarding recognition of the Somoza Government in Nicaragua is being postponed by many Latin American Governments pending a US move (page 7).

Recent developments in Paraguay suggest that the Morinigo Government will obtain a military decision over the rebels before any negotiations for joint mediation could be completed (page 8).

**TOP SECRET**

TOP SECRET

GENERAL

UK-USSR Trade Negotiations

In spite of the considerable publicity concerning the protracted UK-USSR trade negotiations and reports that the talks have been "successful," no substantial agreement has actually been reached. The UK Foreign Office has encouraged this publicity to refute the left-wing rebels' charges that the Labor Government is anti-Soviet, to bring home to the people generally that their desires for improved relations and trade with the USSR are shared by the Government, and to fix responsibility on the USSR for any breakdown in the negotiations.

Because the UK and USSR economies are substantially complementary, theoretically there are no economic reasons why a heavy volume of trade between the two countries should not eventually develop. However, most UK officials doubt Soviet ability to deliver in the near future important quantities of timber and grains and resent Soviet unwillingness to consider broad, long-term commitments; the UK, on its part, has refused to extend to the USSR large credits or to promise early delivery of industrial products. Neither country, during the long course of negotiations, has demonstrated either a willingness to make concessions or particular disappointment at failure to reach agreement.

In view of the pressing need in each country for the products of the other, the dilatory attitude of the negotiators appears to be based upon mutual recognition that any substantial increase in trade over the next few years is impracticable, because of internal needs, prior commitments, and perhaps ideological reasons.

Yemen Invites US Air Assistance

The request of the Imam of Yemen for US assistance in the commercial development of his country, including the organization of a US-operated airline, may result in the establishment of US influence in a strategic position on the Red Sea.

Yemen is a primitive Arab kingdom, hitherto isolated and traditionally resistant to western contacts. It has consistently prohibited establishment of foreign diplomatic missions within its borders. The Imam's decision to open his country to US aid may have been influenced by observation of the benefits for Saudi Arabia which Ibn Saud obtained by similar action.

TOP SECRET

**TOP SECRET**

The advantage to Yemen of a US-operated national air service would be rapid communications with the port of Jidda and thus greatly-improved connections with the holy city of Mecca. A natural sequence to establishment of such an airline, furthermore, would be a US elementary training program similar to that now operating at Dhahran in Saudi Arabia. This program would eventually permit some Yemen nationals to participate in simple duties and responsibilities of airline management.

The strategic advantage to the US of a US-operated Yemen airline would be the extension to the southern end of the Red Sea of US management contracts which are already in effect with airlines of Syria, Ethiopia, Saudi Arabia, and Iran. Aerial reconnaissance of Yemen would provide military intelligence on areas never before seen by non-Moslems. A modern, American air installation at Sanaa, the Yemen capital, would increase US prestige in the Arabian peninsula. The presence of American air interests in Yemen would not, however, materially increase the combined US-UK military potential because British ability to defend the area is already supported by numerous air installations scattered within air range of Aden.

TOP SECRET

## WESTERN EUROPE

Efforts to Moderate the Anti-Soviet Attitude of Swedish Officers

General Helge Jung, Commander in Chief of the Swedish Armed Forces, is reported: (1) to have told a recent conference of top-ranking Swedish military personnel that most satisfactory political relations with the USSR had been achieved; and (2) to have issued verbal orders to those present to cease anti-Soviet talk, to indoctrinate junior officers along the new line, and to disseminate propaganda favorable to the new Soviet relationship.

STAT

Soviet Attitude Toward German Minister-Presidents' Conference

A conference in Munich of all German Minister-Presidents has been called for 6 and 7 June by Minister-President Ehard of Bavaria. The purpose of the gathering is to guarantee a maximum indigenous effort to relieve the critical hardships of the coming winter and to demonstrate to the German people and to the Western Powers the sincerity of responsible German officials. Attendance from both the Western Zones and the Soviet Zone is assured.

The USSR suspects that the conference may be a step toward federalism, and has made efforts to control it by sending political group leaders and trade unionists with the delegations and by attempting to move the conference to Berlin. Having failed in these maneuvers, the USSR can be expected: (1) to attempt to use the conference as a sounding board for its propaganda for unity and a "broader national representation" as the only means of alleviating Germany's economic distress; (2) to discredit any positive over-all achievements of the conference that might strengthen the cause of federalism; and (3) to attempt to use the conference to wring from the Western Zones some badly needed economic assistance, particularly raw materials.

TOP SECRET

TOP SECRET

NEAR EAST-AFRICA

Iranian Army Intrigue Against the Kurds

General Shahbakhti, recently put in command of Iranian troops in Azerbaijan, is attempting to cause a split between Ammar Khan, paramount chief of the powerful Shikkak Kurds, and other Shikkak chiefs. Shahbakhti hopes in this way to weaken the tribes and to facilitate the Iranian Army's task of disarming them. The result, however, will be the weakening of Iranian security and the creation of conditions conducive to Soviet subversive operations. Shahbakhti (who is generally hated by Iranian tribesmen) is taking this action despite Ammar Khan's declaration of loyalty to the Iranian Government and his recent assistance to the Army in dealing with renegade tribal elements. So far Shahbakhti's attempts to split the tribes have met with little success, primarily because of Ammar Khan's influence over his people. Should these efforts be continued, however, the tribes will increase their resistance to the Army and its policies (including the purchase of US military supplies); moreover the breach will be widened between Prime Minister Qavam, who has the support of the tribes, and the Shah and the Army.

Abd el Krim and North African Nationalism

The dramatic re-appearance of former Riff leader Abd el Krim after 21 years of exile not only embarrasses the French in their efforts to re-establish political prestige in North Africa (see Weekly Summary of 29 May, page 1) but focuses attention on King Farouk's interest in stimulating North African nationalism.

At the request of the Arab League (with which France desires good relations), the French decided without consulting Spain to remove the aging Moorish chief from Reunion Island and to install him in comfortable quarters on the French Riviera. On 31 May, when his vessel stopped at Port Said, Abd el Krim "jumped ship" and, with the aid of Egyptian officials, proceeded to Cairo where he received a hero's welcome from King Farouk, Arab League leaders, and prominent exiled North African nationalist chiefs. The French, already annoyed by Egypt's attempt a few days earlier to send a grain ship to "starving Tunisia," were surprised and angered by this second indication of Farouk's support

TOP SECRET

**TOP SECRET**

of the Arab nationalist movement in French North Africa. However, in view of Farouk's influential position in the Arab League, France has decided not to deliver a formal protest.

The growing influence of the Arab League among North African nationalist groups has stimulated competition between France and Spain to win Arab favor. Certain influential Spanish military leaders -- who believe that Spain must eventually lose its strip of Morocco -- prefer a friendly Arab state adjacent to the Straits of Gibraltar to a French-dominated Morocco. Spanish officials have encouraged nationalism in their zone by allowing native leaders to organize there for anti-French action. The Spaniards have done little to locate small arms stolen from their arsenals or to punish the thieves. France was transferring Abd el Krim to counteract the effects of Spanish "benevolence" to the Moors. Unless France and Spain can agree quickly on a common policy regarding Arab nationalism in North Africa, Moroccan nationalists may with Arab League support create serious unrest which could easily spread to all North Africa.

**TOP SECRET**

**TOP SECRET**

**FAR EAST**

**Prospects for Indonesian Acceptance of Dutch Note**

The prospects for Indonesian rejection or conditional acceptance of the final Dutch proposals contained in the note of 27 May are at present nearly equal.

Left-wing groups in the Republic, which formerly supported the Linggadjati Agreement, have announced their opposition to the terms of the Dutch note. These groups may be expected to join two influential conservative Parties, which have opposed cooperation with the Dutch, in urging the Republican Cabinet to reject the note in the hope that the Republic might obtain greater concessions if the dispute were submitted to international arbitration.

On the other hand, UK and US representatives in the NEI are now directly urging Republican authorities to give favorable consideration to the Dutch proposals. The US and UK believe that these terms are reasonable in most respects, and that they are offered by the Dutch in good faith. These representations may encourage the Republic to accept the Dutch note conditionally and perhaps to make a counter-proposal. Such a development would lead to further negotiations which might be protracted by Republican delaying methods. Indonesian rejection of the Dutch note, however, would put an end to negotiations and lead to limited Dutch military operations to prevent Republic destruction of foreign properties.

**TOP SECRET**

TOP SECRET

THE AMERICAS

Preliminary Reactions to Somoza Coup

With Anastasio Somoza back in control in Nicaragua, a new Somoza puppet installed as interim president, and plans under way for a Somoza-controlled election for a Constituent Assembly, the other American Republics must decide what attitude to adopt toward the new Nicaraguan Government.

The United States, which has instructed its Managua Embassy to deal with General Somoza only in his capacity as a private citizen and has indirectly advised the Latin American Governments that it will receive the new (Somocista) Nicaraguan Ambassador only in a "personal and private capacity," favors consultation among the American Republics regarding the course to be followed. If some appropriate American Republic such as Colombia fails to take the lead, the US will itself initiate the consultation.

Many of the Latin American Governments are postponing a decision regarding possible non-recognition of the new Nicaraguan Government in anticipation of a US move. Guatemala, Panama, El Salvador, and Colombia have made known their opposition to extending recognition. The Chilean Foreign Minister has informed US Ambassador Bowers that Chile "deplores" the turn of events in Nicaragua, but, like Argentina and Brazil, has as yet given no indications of future policy. Cuba, Ecuador, and Uruguay have indicated interest in an expression of attitude by the US (as, despite prior announcement of their own policy, have Guatemala and El Salvador). Three countries -- Uruguay, Mexico, and Colombia -- have already expressed willingness to participate in any inter-American consultation on the subject.

The Latin American press -- with remarkable unanimity, in view of the traditional tenderness of Latin Americans toward the use of recognition as a weapon of policy -- is urging non-recognition of the de facto Nicaraguan Government. The dissenting voices are a Honduran newspaper which contends that the de facto government came to power in a normal and legal manner, and the Dominican press, which points to the prompt recognition accorded the revolutionary Junta in Venezuela last year as a precedent and insists that the American Republics are morally obligated to extend recognition in the present case.

TOP SECRET

**TOP SECRET**

Morinigo's Improved Position in Paraguay

The major recent developments in Paraguay include: (1) renewed Brazilian efforts on behalf of a negotiated peace between the two contending factions; (2) indications that the rebels, increasingly divided among themselves, are now inclined to discuss terms; and (3) further hardening of the Government's attitude toward current joint mediation proposals, which it finds unacceptable on the presumed eve of a final victory achieved at "great sacrifices."

If President Morinigo's estimate of the military situation is correct, as seems probable in the light of continuing reports of rebel reverses, Morinigo could expect to obtain a military decision before time-consuming negotiations for joint mediation could be completed. It seems increasingly probable that Paraguay will return to "normal," with a government like those in Nicaragua and the Dominican Republic, which derives its authority from the sanction of force and apparently is beyond challenge from within its own frontiers.

**TOP SECRET**

38

29 MAY 1947

TOP SECRET

50

## C O N T E N T S

TRENDS IN BRIEF . . . . .	Pages
	i - iii

## WESTERN EUROPE

New French Policy in North Africa . . . . .	1
Prospects for Repairing the Socialist Split in Italy . . . . .	2

## EASTERN EUROPE

Intensified Activity Along the Greek Frontier. . . . .	3
Political Instability in Finland. . . . .	3
Communist Device to Curb Press Freedom. . . . .	4
UK Presses for Unification of Greek Labor. . . . .	4
Possible Strengthening of Greek Patriarchate . . . . .	5

## FAR EAST

China's Ship Crew Shortage . . . . .	6
--------------------------------------	---

## GENERAL

UK Export Policy on Military Aircraft . . . . .	7
---	---

50

Document No. \_\_\_\_\_  
 NO CHANGE in Class.   
 DECLASSIFIED  
 Class. CHANGED TO: TS S C  
 DDA Memo, 4 Apr 77  
 Auth: DDA DTG, 77/1763  
 Date: 27/1/78 By: 023

TOP SECRET

TOP SECRET

T R E N D S I N B R I E F

WESTERN EUROPE

To achieve political stability in North Africa, the French Government is concurrently instituting reforms and establishing a strong military administration in Morocco (page 1).

Lombardo's plan to create a single Socialist Party in Italy provides some hope for the eventual establishment of an anti-Communist bloc in that country (page 2).

The compromise reached by Premier Ramadier and the utilities workers, which forestalled a general protest strike in France on 28 May, indicates that neither the Government nor labor is willing to risk a showdown on the issue of wage-price stabilization. The crisis has been postponed, but the basic issues confronting the Government--wage-price stabilization, relaxation of economic controls, and the grain shortage--remain unsolved. Unless Ramadier continues to exert the courage and determination necessary to build public confidence in his regime, another crisis could easily cause the fall of the Government. Meanwhile, the Communists, in preparation for the next test, will redouble their efforts to undermine the authority of the Government.

EASTERN EUROPE

Greece's northern neighbors apparently are preparing to intensify their attempts through propaganda and misrepresentation to demonstrate that Greece is guilty of border violations (page 3).

The reinstatement of the Pekkala Cabinet in Finland offers no immediate promise of political or economic stability in that country (page 3).

The Bulgarian Communists are likely to circumvent Treaty provisions for guaranteeing freedom of speech by encouraging the printers' union to refuse to print or distribute Opposition newspapers (page 4).

TOP SECRET

TOP SECRET

The UK is pressing for Greek labor unification, although it had agreed to "relax pressure" on the Greek Government (page 4).

To strengthen the Greek Orthodox Church, in the face of Soviet penetration, the Greek and Turkish Governments may designate a successor to the ailing Patriarch Maximos (page 5).

The economic situation in Greece will deteriorate further as the result of damage to agriculture from severe drought and spring frosts, thereby increasing the difficulties which face the US's rehabilitation program. In addition to the serious loss of income from agriculture, the loss in forage crops and in grain (grain constitutes about half of the Greek diet) will create at least as critical a supply situation as in 1945. Present indications are that the grain crop may amount to as little as 50% of the average pre-war harvest, which supplied only 64% of the country's grain needs.

Despite Soviet agreement at the Council of Foreign Ministers at Moscow that the Allied Treaty Commission in Vienna should give special consideration to the general question of German assets in Austria and should establish "concrete facts", the Soviet delegation on the Commission is making every effort to impede fact-finding and is attempting to limit quadripartite discussion to the specific problem of oil assets. The USSR's present obstructionist tactics in Vienna are apparently designed to obtain the settlement of the bulk of Soviet claims on German assets through bilateral negotiations with the Austrian Government.

#### FAR EAST

China's critical shortage of trained ship crews is an important factor in the failure of the Chinese Government to agree to quadripartite distribution of minor Japanese naval tonnage (page 6).

A convention of the Burmese Anti-Fascist League (AFL) unanimously adopted on 20 May a resolution to proclaim Burma an independent sovereign republic. Because the League holds 95% of the seats in the Burmese Constituent Assembly, that body is expected to follow the League's lead in this decision. Burma's withdrawal from the British Commonwealth may therefore be considered a certainty; however, Burma will probably conclude defense and economic treaties with the UK.

TOP SECRET

TOP SECRET

GENERAL

Sale by the UK of jet engines to the USSR represents an effort to demonstrate, for the benefit of left-wing Laborites, a more cooperative attitude toward the USSR, as well as a determination to obtain the maximum commercial advantage from their pre-eminence in the jet engine field (page 7).

TOP SECRET

**TOP SECRET****WESTERN EUROPE****New French Policy in North Africa**

To forestall possible uprisings in North Africa, the French Government has adopted a dual policy of instituting long-awaited reforms in Morocco and establishing there a strong military administration. The Government's purpose is to undermine the nationalist leaders by granting much of what they have been demanding for decades and to convince over-confident extremists that France is still capable of crushing any rebellion. For these reasons, General Juin was appointed Resident General of Morocco and instructed to carry out democratic reforms in spite of the Sultan's obstructionist attitude. This policy should enable France to maintain a firm hold on an area where political stability is of great strategic importance to the western democracies.

Nationalist leaders, not only in Morocco but also in Tunisia and Algeria, have shown a tendency to regard France's post-war promises of colonial reform in North Africa as a sign of weakness. The success of the Arab league in the Middle East, Soviet encouragement of freedom for colonial peoples, and US interest in the stability of strategic North Africa have all contributed to the nationalists' decision to oppose any reforms sponsored by France. The native politicians of this area hope, by exploiting the competing interests of the US, the USSR, and the Arab League, to throw off French rule completely. The native leaders have resisted as compromises and half-measures: the political and economic measures proposed for Tunisia, the various drafts of an "Algerian Organic Statute," and the reforms urged upon the Sultan of Morocco. The nationalists have conducted a war of nerves, hoping to make the French appear as oppressors and, at the same time, to create such confusion that the matter could be brought before the UN General Assembly at its next meeting in September with a recommendation for a UN trusteeship for the North African Arab states in the "interests of world peace."

With even a moderate degree of political stability at home, the French should be able to bring a large measure of democratic reform to North Africa and continue control of the region. Both the nationalists and the Communists will oppose the new firm policy but effective resistance is not expected.

**TOP SECRET**

**TOP SECRET**

Prospects for Repairing the Socialist Split in Italy

Prospects for the eventual formation of an effective anti-Communist bloc in Italy have been somewhat improved by the possibility that Ivan Matteo Lombardo may be able to re-establish a single Socialist Party in Italy. Lombardo, the Socialist head of the Italian Economic Mission now in Washington, plans upon his return to Italy to appeal to moderate elements among Saragat's right-wing Socialists and Nenni's left-wingers to abandon Saragat and Nenni, and their respective extremist followers, and join forces under his leadership.

Lombardo seems to have the widest popular appeal of any current Socialist leader. He is moderate, realistic, and energetic in politics and a successful textile manufacturer. Although he was sympathetic with Saragat's anti-Communist stand, he remained with the main body of the Socialist Party when the Party split in January, because he felt the Saragat secession would weaken Italian Socialism. He has not, however, identified himself with Nenni. Lombardo is an abler politician than Saragat and has the added virtue of being an economic technician at a time when Italy's political crisis is largely a result of economic difficulties. The chances for the success of his proposed movement obviously would be greatly improved: (1) if the Vatican should endorse a rapprochement between the Christian Democrats and moderate Socialists; and (2) if his mission to Washington is successful.

**TOP SECRET**

TOP SECRET

## EASTERN EUROPE

### Intensified Activity Along the Greek Frontier

Albania's vigorous protest to the UN regarding the alleged machine-gunning of an Albanian village by Greek Government aircraft may foreshadow an intensive propaganda campaign by Greece's northern neighbors in an attempt to counteract the effect of the SC Balkan Investigation Committee report. Although the Greek attack, if it occurred, was certainly not deliberate, Albania's allegations have involved Greece in an international incident which may prove embarrassing. Further such incidents may result from: (1) increasing attempts by the Greek Communist bands to avoid attack from Greek ground and air forces by escaping to satellite territory; and (2) the reported use of aircraft by the satellites to drop supplies to guerrilla bands on Greek territory. The Yugoslav, Bulgarian, and Albanian Governments can be expected to represent Greek counter-measures as violations of their sovereignty. Such a propaganda campaign would be intended to distract attention from intensified satellite support of the Greek Communists.

The Greek Army offensive against the guerrillas in central and northern Greece has reached a stalemate, which is likely to continue as long as the bands receive aid from the satellite countries. The Army has been unsuccessful in pinning down the guerrillas, and the Gendarmerie has achieved so little success in controlling the "cleared" areas that the Government is encouraging residents of these areas to arm themselves as protection against the guerrillas. The arming of civilians will neither solve the guerrilla problem nor promote national recovery.

### Political Instability in Finland

The reinstatement of the Pekkala coalition Cabinet in Finland, after six weeks of unsuccessful negotiations to form a successor, holds no immediate promise of political or economic stability for that country. The fall of the Cabinet was caused by failure of the three major parties (Communist, Socialist, and Agrarian) to agree on a Government program to solve the crucial wage-price maladjustment. The ensuing negotiations demonstrated that no two Parties could govern without the third, and sharpened the fundamental differences among them. The Cabinet is now in no better position to agree on a solution to Finland's economic ills.

TOP SECRET

## TOP SECRET

The Conservative Agrarians, having failed to weaken the Communist influence in the Government as they had hoped to do by provoking the recent crisis, are expected to continue their determined opposition to Communist economic proposals. A new crisis therefore appears inevitable; when it occurs, the three Parties may reluctantly agree to new elections this fall as the only solution to the stalemate.

Communist Device to Curb Press Freedom

The Dimitrov Government in Bulgaria has laid the groundwork for a technique which may successfully obstruct attempts by the US and UK to enforce the provisions of the Peace Treaty which guarantee freedom of speech. The Communist-dominated printers' union has refused to print several issues of an Opposition paper and has passed a unanimous resolution not to print or distribute newspapers containing articles by Opposition leaders directed against the "interest of the Bulgarian people." Prime Minister Dimitrov can be expected to counter US-UK protests concerning freedom of speech by disclaiming any Government responsibility; he has already publicly stated that the action of the printers' union is a "private matter" in which the Government cannot interfere.

UK Presses for Unification of Greek Labor

Despite an earlier agreement with the US to "relax pressure" on the Greek Government, the UK is undertaking to obtain speedy unification of the divided Greek labor movement. It has persuaded the Greek Government to recommend that the courts appoint a new Central Executive Council of the General Confederation of Trade Unions (GCTU). The Executive Council would consist of twenty-one members, possibly five of whom would be Communists or controlled by Communists. While it has been reported that the Communists are under orders to enter any Executive which might be formed, it is doubtful whether they would participate unless they were given a majority position; any Executive formed at this time without Communist participation could be attacked on the ground of being non-representative. On the other hand, an Executive appointed prior to the formation of an effective and representative coalition of the non-Communist elements would probably be so divided that even a small Communist representation might be able to gain control.

TOP SECRET

Possible Strengthening of Greek Patriarchate

The arrival in Athens from Istanbul of the ailing Patriarch Maximos, head of the Greek Orthodox Church, has focused attention upon the danger of Soviet penetration and exploitation of the Orthodox Church in Greece and Turkey for political purposes. Since the restoration of the Church in the USSR, the Kremlin has not only dominated the Church in that country but has also extended Soviet influence over it in other parts of the world. Church officials in the Middle East and elsewhere have been influenced by Moscow, while even in Greece certain clerics have actively supported the Communist-controlled EAM organization. For these reasons, the ineffectiveness of the Patriarchate (resulting from the mental illness of the anti-Soviet Maximos) has caused the Greek Government serious concern. The Patriarch is now in Athens ostensibly for medical treatment, but probably also for consultation with the Greek Government in connection with the choice of a successor.

Patriarchs are elected by vote of the Holy Synod at Istanbul, but, in practice, the candidate elected is the official most favored by the Greek Government, which controls the Church's main source of income. Agreement with the Turkish Government on a new patriarch is usually reached before the Synod votes. If Patriarch Maximos is replaced, it is certain that the present Greek and Turkish Governments will select a successor whom they consider politically safe and who will be prepared to resist Soviet influence and attempts to dominate the Church.

TOP SECRET

TOP SECRET

FAR EAST

China's Ship Crew Shortage

Failure of the Chinese Government to reply to a US note of 24 February specifying procedures for division and delivery of 239 small Japanese naval vessels (of destroyer tonnage or less) is delaying the distribution of these ships among the US, USSR, UK, and China. At Soviet insistence, the US agreed in October 1945 that minor Japanese naval tonnage (excluding submarines) should be divided equally among the four major powers; the division of merchant shipping was left as part of the general reparations problem to be settled by the Far Eastern Commission. The USSR has continued to press for the agreed division of naval tonnage. China's failure to reply to the US reflects not only a critical lack of trained ship crews, but also a fear that the impracticality of grandiose Chinese plans for development of commercial shipping may be publicly confirmed. Presently unable to man its share of the Japanese naval vessels and uneasy about Soviet naval strength in the Port Arthur area, China may wish to delay action as long as possible in the hope of obtaining further US assistance in developing its Navy.

TOP SECRET

**TOP SECRET**

**GENERAL**

**UK Export Policy on Military Aircraft**

The recent sale of additional British jet engines and the impending sale of jet aircraft to the USSR represent no change in British policy. Such sales are in keeping with the UK desire to demonstrate a cooperative and friendly attitude toward the USSR in military matters, as previously evidenced by Field Marshal Montgomery's proposal to initiate an exchange training program for British and Soviet Staff Officers.

The domestic, political significance of the jet engine sale is indicated by the timing of its announcement just prior to the important Labor Party Conference now in session. This transaction has served to counter left-wing charges that the Government has failed to develop trade relations with the Soviet Union.

The British are now obviously confident of maintaining their pre-eminence in the jet engine field and are determined to exploit this position to the fullest commercial advantage. Development of a foreign market for the British aircraft industry has been a major objective of British trade policy. Sweden, France, China, and the US have already obtained licenses to manufacture the Nene engine and complete British aircraft have been sold to Sweden, Switzerland, and Argentina. It is apparent that the British have now abandoned their former attempts to make aircraft sales to the USSR conditional upon obtaining landing rights in the Soviet Union.

The British evidently did not consider that the original acquisition of the Derwent V and Nene jet engines by the USSR in 1946 presented a threat to their national security. Meanwhile, both engines have been superseded by newer British models and it is recognized that the USSR, aided by German scientists, already has made substantial progress of its own in jet propulsion techniques. In spite of British classification of this equipment as obsolescent, it is, nevertheless, noteworthy that the Derwent V still holds the world speed record and that the Nene is now to power the US Navy Grumman fighter.

**TOP SECRET**

TOP SECRET

49

## CONTENTS

	Pages
TRENDS IN BRIEF . . . . .	i - v

### GENERAL

Soviet Policy on Austrian Civil Air Development . . . . .	1
Friction with UK over Support in US of Palestine Terrorism	1

### WESTERN EUROPE

Prospects for Survival of the Ramadier Cabinet . . . . .	3
--	---

### EASTERN EUROPE

Soviet Concept of Sovereignty . . . . .	4
Disintegration of Rumania's Economy . . . . .	4
Socialist-Communist Split in Poland . . . . .	6
Soviet Economic Offensive in Hungary . . . . .	6
Settlement of Soviet Nationals in Eastern European Areas..	8

### NEAR EAST-AFRICA

Factors Endangering the Viceroy's Proposals . . . . .	9
---	---

### FAR EAST

The US-USSR Joint Commission Reconvenes . . . . .	10
---	----

49

Document No.			
NO CHANGE in Class.	<input type="checkbox"/>		
<input checked="" type="checkbox"/> DECLASSIFIED			
Class. CHANGED TO:	TS	S	C
DDA Memo, 4 Apr 77			
Auth:	DDA REG. 77/1763		
Date:	27/1/78 By: 025		

TOP SECRET

TOP SECRET

## TRENDS IN BRIEF

### GENERAL

The USSR is seeking to hinder Austrian civil air development in order to protect the antiquated Balkan satellite airlines (page 1).

Support of terrorism in Palestine through public solicitation of funds in the US may become a source of international friction (page 1).

### WESTERN EUROPE

The survival of the present French Government depends largely on its success in raising the bread ration within the next few weeks (page 3).

France appears to have been forced by events of the past few months to abandon its attempt to steer an independent course between the US and the USSR and to align its foreign policy more closely with that of the western democracies. From the French point of view, however, this is a short-range policy designed primarily to give France the time and means to recover the political and economic stability necessary to re-establish its leadership of the continental powers in Western Europe and to regain complete independence of action.

The recent "strike" by 30,000 industrial workers at Bilbao, the center of the Basque nationalist movement, was essentially a spontaneous popular demonstration against the Franco regime. It was moderate and non-violent. The size and duration of the demonstration, however, seem to have influenced General Franco's recent declaration at Barcelona that he is preparing to decentralize the Government to provide broader regional autonomy. While it is unlikely that Franco will make any real concessions to regional autonomy, he is apparently concerned over the unexpected show of strength in Bilbao.

TOP SECRET

UK Foreign Minister Bevin will probably not have serious trouble with his left-wing critics during the foreign policy debates at the annual UK Labor Party Conference which begins on 26 May, although the debates are certain to be vigorous. (Most Foreign Office actions since last winter have been taken with an eye on the rebellious left wing, and the recent foreign policy debate in Commons was unexpectedly mild.) The scale of opposition in the Labor Party conferences to Bevin's policies should not be much greater than that of the left-wing Laborites in Commons.

UK Foreign Office officials have decided that Czechoslovakia and Poland are the most favorable areas to attempt penetration of the "Iron Curtain," chiefly because of their former western orientation. Accordingly, the UK is courting both countries, Poland less intensively because of the British desire not to cancel out the effect of the UK's frequent disapprovals of Polish political methods. This course of action, like the trade negotiations with the USSR, will serve to disarm Bevin's left-wing critics and will be generally popular in the UK.

#### EASTERN EUROPE

The Soviet concept of sovereignty as set forth recently by Soviet spokesmen suggests that the USSR has renounced international cooperation except on its own terms (page 4).

The USSR's repressive policies in Rumania have resulted in the rapid economic disintegration of the country and will require the increasing use of force to maintain Communist control (page 4).

The existence of the Socialist Party in Poland is threatened by a Communist plan to check the inflationary trend (page 6).

The USSR has launched an intensive economic offensive in Hungary which aims to prevent Hungarian economic ties with the West (page 6).

Large-scale penetration of Soviet nationals into Southeastern Europe provides the USSR with an ideological and ethnic population-barrier against the West (page 8).

TOP SECRET

TOP SECRET

## NEAR EAST-AFRICA

Acceptance of British proposals for an independent India may be delayed by disagreements between the Congress Party and the Moslem League (page 9).

Increased Soviet pressure on Iran, including protests against the predominance of US influence and activity in the country, is causing uneasiness among Iranians. Although opposition to the Soviet oil concession continues strong, there are indications that Iran may attempt to strike a balance in its policies vis-a-vis the US and the USSR. A characteristically facile Iranian move would be the refusal by Parliament to ratify either the Soviet oil agreement or the purchase of military equipment from the US. Although the USSR would strongly approve an adverse decision with regard to the purchase of US military equipment, such a decision would not lead the USSR to relax its pressure for an oil concession.

Foreign interests in Egypt are threatened by anti-foreign sentiment which has become increasingly strong since the breakdown of the Anglo-Egyptian treaty negotiations in January. The anti-foreign agitation, which the Government has failed to curb, may influence the Egyptian Parliament to pass legislation (now under consideration) which would severely hamper the operation of foreign business firms. Under these circumstances, the prospective abolition in 1949 of the Mixed Courts (composed of foreign and Egyptian judges and designed to protect the interests of foreigners) has particularly serious implications for foreign business operations in Egypt.

## FAR EAST

As the Joint Commission reconvenes in Korea, the US faces the difficult task of mediating between the USSR and the South Korean rightists (page 10).

The new Siamese Cabinet, to be installed about 22 May, will probably be headed again by Prime Minister Dhamrong because the two government parties, the Constitutional Front and the Sahacheep,

- iii -  
TOP SECRET

## TOP SECRET

are unable to agree on any other candidate. Although Dhamrong's retention of the post of Prime Minister will rule out the possibility for the present that an anti-foreign militarist will assume power, the new Cabinet will be weakened by indifferent support from the two government parties and by the widespread popular dissatisfaction with the preceding Cabinet's inability to remedy the high cost of living.

## THE AMERICAS

Canada's two most influential groups--the Quebec (French Canadian) Church hierarchy and the Tory Conservatives--have reversed their traditional pro-Empire policies and abandoned their anti-US positions. French Canadian leaders have gone so far as to advocate complete severance from the British Crown; this change in policy apparently was dictated by a conviction that Quebec Province is no longer dependent upon the Crown for protection against Ottawa domination. The Tory reversal reflects dissatisfaction with British Socialism and concern over UK economic weakness. The action of these two groups is expected to encourage sentiment in Canada for independence, closer orientation to the US, and membership in the Pan American Union.

President Arguello's apparent determination to force ex-President Somoza out of Nicaraguan politics suggests an imminent showdown between the two men. Their relations have become increasingly strained by Arguello's rapid assertion of his prerogatives as chief executive, especially by his prompt removal of Somoza adherents (including Somoza's son) from key positions in the Guardia, his appointment of an anti-Somoza Cabinet, and his assumption of command of all the armed forces (which circumscribes Somoza's power as chief of the Guardia). Arguello, who has won wide-spread support from the public and the Guardia, has stated that if Somoza continues to be a trouble-maker, he will be obliged to "get rid of him." However, Somoza, who still exerts powerful influence in the legislature and to a lesser degree in the Guardia, can be counted on to use every means at his disposal to retain some measure of control.

Peron's increasingly strong stand against Communism in Argentina is indicated by : (1) instructions recently given the Argentine

**TOP SECRET**

police to prepare a report on Communist subversive activities; (2) the recent arrest, on Peron's orders, of 220 persons attending a Communist meeting; and (3) proposed legislation that would probably have the effect of abolishing the Communist Party in Argentina.

- v -

**TOP SECRET**

TOP SECRET

GENERAL

Soviet Policy on Austrian Civil Air Development

From the Soviet point of view, the creation of a modern civil air establishment in Austria and the development of Vienna as an important air traffic center would present unwelcome competition to the antiquated Balkan satellite airlines and could serve as a check on the desired westward expansion of these lines. The USSR is accordingly still employing the obstructionist tactics adopted in July 1946, when the Austrian Cabinet rejected a Soviet offer of assistance in setting up an Austrian civil airline.

The current Soviet objective is to prevent any Austrian planning for post-occupation civil air development; the USSR is trying to accomplish this by blocking the establishment of a department of civil aviation in the Austrian Government.

Austria is financially unable to purchase in the open market the necessary equipment for rehabilitation and extension of its airfields. A possible source of such materiel on advantageous terms would be the surplus US and UK airfield installations now in Austria. However, as long as Soviet troops are in Austria the USSR would probably bring political and economic pressure on Austria to prevent acceptance of any such US-UK offer of assistance in post-occupation air development.

Austrian acceptance at this time of a US and UK commitment for extensive participation in Austrian air development might encourage further Soviet delaying tactics with respect to the Austrian treaty. Likewise, an Austrian airline jointly owned with western interests might later give other countries an excuse to reject civil air agreements with Austria on the grounds of the foreign control of its air activities.

Friction with UK over Support in US of Palestine Terrorism

The support of terrorism and illegal immigration in Palestine, through the public solicitation of funds in the US, has been protested by the UK and could well become a source of international friction. The latest British protest referred to the publication in several New York newspapers of full-page advertisements written by Ben Hecht for the

TOP SECRET

Palestine Resistance Fund, which linked an appeal for contributions with implied approval of armed resistance against the mandatory Government of Palestine.

The UK has several times called the attention of the US State Department to advertisements in a similar vein carrying the added inducement to contributors that "by ruling of the Treasury Department contributions are tax exempt," thus indicating that the organizations soliciting funds were charitable or educational in character. The British maintained that, as the funds contributed were used for the strengthening of terrorist forces and the encouragement of illegal immigration, the description was hardly appropriate and, in effect, placed a premium on contributions intended to incite insurrection against a friendly government. The British likewise have pointed to the chartering, manning, and dispatching from American ports of ships to be used in illegal immigrant traffic to Palestine as a further embarrassment to Anglo-American relations. To these observations the State Department has pointed out that the US Government cannot stop the publication of such advertisements, that the question of tax exemption is a complicated legal one now under consideration, and that no legal authority exists for preventing the sale and departure of the ships in question.

It would be difficult to deny in open debate before the UN that the US has been the financial base for concerted hostile action against the Government of Palestine, and that such action has led to the assassination of British and Palestinian officials. The UN General Assembly might regard the following resolution of the Council of the League of Nations as a precedent: "... it is the duty of every State neither to encourage nor tolerate on its territory any terrorist activity with a political purpose; that every State must do all in its power to prevent and repress acts of this nature and must for this purpose lend its assistance to Governments which request it . . . ."

If the Hecht incident should be laid before the UN in accordance with the Charter as a "situation" or "dispute," the USSR or other Powers interested in stirring up trouble between the US and UK might advocate a rebuke to the US in the form of a UN resolution. Furthermore, one of the Arab League States (of which there are five members in UN) might discover in this situation an opportunity to discredit Zionism in the US by attempting to embarrass the US in the forum of the General Assembly.

TOP SECRET

WESTERN EUROPE

Prospects for Survival of the Ramadier Cabinet

The continued survival of the Ramadier Government depends to a large degree on its ability to raise the bread ration within the next few weeks. Ramadier has acquired great prestige by his strong stand against the Communist ministers in the recent Cabinet crisis and by his incisive attempts to deal with the economic crisis. There is probably a sincere desire on the part of the majority of the French people to make this Government work. It is threatened, however, by Communist sabotage and exploitation of genuine distress and by serious disagreement between the Socialists and the Leftist Rally (RGR).

The new Centrist Government is on trial before a nation whose morale is at a low ebb. The critical period in regard to grain supplies will not be over until July, when the 1947 crop will begin to appear on the market. Meanwhile, the Communists are stepping up the tempo of their drive to sabotage not only the food program but also the Government's industrial and commercial policies. Although Communists have officially discounted as "idiotic" the idea of a general strike and have even expressed the intention of supporting the Government, their official newspaper carries a daily box-score, listing increases won by "spontaneous" workers' demands for increased wages. The champions of labor are now also sponsoring the cause of the "forgotten man" -- the small businessman, artisan, and salaried worker -- against economic controls and bureaucratic red tape.

This propaganda against a controlled economy has found a ready response among members of the RGR, who have begun to show signs of refusing to collaborate with the Socialists. It would seem premature, however, for the RGR to venture at this time to break with the Government over the question of economic controls while the Communist Party remains strong enough to take advantage of such a crisis to return to power. Having obtained some success with the propaganda directed toward the small businessman, the Communists are attempting to win support from the peasants by attacking as "useless and dangerous repressions" the Government's strong measures to collect hoarded wheat. In spite of increased payments for promptly-delivered wheat and a highly-gearred propaganda campaign to induce grain producers to disgorge, the Government will probably not succeed in collecting before July the 400,000 tons of wheat now being held in the expectation of still higher prices.

TOP SECRET

TOP SECRET

## EASTERN EUROPE

### Soviet Concept of Sovereignty

Indications that Soviet diplomacy has renounced international cooperation, except on its own terms, are apparent from declarations emanating recently from a legal adviser of the Soviet Foreign Office and repeated in part in Gromyko's speech before the American-Russian Institute. The Soviet concept of sovereignty, as enunciated in these declarations, points to further ideological isolation from the West and serves as a guide for Soviet diplomacy.

Western efforts to establish a workable system of international cooperation, such as those outlined in the Baruch plan and in Bevin's proposal to transform the UN into a "World Parliament," were characterized by the Soviet adviser as "systematic attacks on the principle of sovereignty, that is, of genuine independence of states in their domestic and foreign policy." The Soviet state, he added, opposes this expansionist philosophy and defines "sovereignty under modern conditions . . . as a legal and international-political barrier in defense against imperialistic encroachment and in providing opportunity to construct the most progressive public and state forms -- Socialist and Peoples Democrat; it serves as a guarantee of freedom of oppressed peoples of colonial and dependent countries from the imperialist yoke." The spokesman noted that while Anglo-American efforts to "parliamentarize" the UN and international conferences might have been regarded as progressive fifty or a hundred years ago, they can only be considered today as "profoundly reactionary" and as attempts on the sovereignty of the Soviet and other "progressive" states. Western principles of "freedom of trade" and "equal opportunities" were also discounted as mere legal camouflage for the economic penetration of states weakened by war.

### Disintegration of Rumania's Economy

The continuing rapid disintegration of the Rumanian economy is largely the result of threatened crop failures and of excessive Soviet demands. The USSR and the Groza Government must, therefore, rely increasingly on force to maintain control in the face of inevitable unrest, disorder, and starvation.

TOP SECRET

The USSR is not expected to take steps to alleviate these conditions which, within the next few months, may mean economic catastrophe for the Rumanian people. The USSR has not relaxed its demands for reparations or food to supply Soviet occupation troops, and Rumanian Communists are tightening their control of the Rumanian economy. Already strictly regulated by the Communist-dominated Ministry of National Economy, Rumanian industry and private enterprise will be further restricted by legislation which Parliament is expected to pass within the next few weeks. In order to quell any possible resistance to these economic controls, the Government within the past two months has arrested an estimated 2,000 members of the Opposition. In addition, an armed underground organization, scheduled to reach a strength of 40,000 local Communists and Soviet civilians (expressly imported for the purpose), already has approximately 25,000 members equipped with weapons supplied by Soviet occupation forces.

The adoption by the USSR of such severe measures at this time may indicate that the Kremlin originally miscalculated: (1) Rumania's productive capacity; (2) the extent to which recovery depended upon the import of machinery and raw materials from the West; and (3) the strength of anti-Communist forces. The serious consequences of these miscalculations to the Rumanian economy have been aggravated by the prospect of a third, successive crop failure (early estimates indicate that a combination of frost and drought may have destroyed as much as 50% to 75% of the cereal crops in Rumania's most productive regions).

Despite these developments, the USSR -- instead of reversing its repressive policy in order to win popular support -- has taken advantage of the prevailing economic chaos to complete the Communist stranglehold on every phase of the economy. Because the USSR probably cannot afford at this time to provide Rumania with the food, raw materials, and machinery needed now for its recovery, the Communists will almost certainly continue to subjugate the Rumanian people by force (even at the expense of short term economic returns) in order to avoid jeopardizing Soviet strategic designs on Southeastern Europe.

TOP SECRET

TOP SECRET

Socialist-Communist Split in Poland

In the first open break with the Communists since the Moscow-dictated rapprochement in November 1946, the Socialists have publicly criticized the plan of the Communists to check the inflationary trend. The Socialists consider this plan a threat both to their continuance as an independent Party and to their influence in the present coalition Government. The Communist plan would, in addition, vastly increase that Party's control over the nation's economy by further reducing spheres open to private enterprise and by substituting a governmental agency -- presumably under Communist control -- for the Socialist-dominated national cooperative, the nation's largest agricultural marketing agency. Socialist-Communist tension has been further augmented by Communist Vice-Premier Gomulka's May Day speech which called for the "organic union of both Parties into one."

Although the Socialists and Communists have been reluctant to air their disagreements in public, the Communists may fear that the truce is now working to their detriment and that only drastic action can prevent new gains by the Socialists. Following the Communistic pattern in Rumania, Bulgaria, and Hungary, Polish Communists may be using the inflationary issue and its attendant unrest as a pretext to extend Soviet control throughout the Polish national economy. The Communist plan has confronted the Socialists with a difficult choice. By opposing it, the Socialists run the risk of being accused of obstructing economic recovery, whereas they will in effect sign their Party's death warrant, if they support the Communist proposal. Disagreement over this issue, however, is not likely to cause any immediate radical changes in the composition of the present Government. Regardless of the extent of their victory on this issue, the Communists can be expected to increase their efforts both to extend their economic control and -- now that the issues have been delineated -- to undermine the strength of the Socialist Party.

Soviet Economic Offensive in Hungary

The USSR and the Communist Party have begun an intensive economic offensive intended: (1) to ensure Communist and Soviet domination of the Hungarian economy; (2) to erect further barriers to the resumption of trade with the West after the peace treaty is ratified; and (3) to create a political crisis from which the Communists hope to benefit.

TOP SECRET

Despite an inter-party agreement to limit nationalization to underground resources and electric power, the Communists are now demanding that the Smallholders' Party agree to nationalization of the country's leading banks. The USSR, meanwhile, is attempting to reinforce its economic controls: (1) by demanding that an estimated \$200,000,000 -- representing all former Hungarian obligations to Germany -- be paid as reparations to the USSR, possibly in the form of shares in Hungarian industry; (2) by insisting on the immediate repayment of three Soviet "loans," totalling approximately \$3,000,000 -- in 1945 the USSR seized \$3,000,000 of currency from the Hungarian banks and "lent" the money to the Hungarian Government; (3) by requesting control of the Hungarian Credit Bank, which owns or controls 40% of Hungarian industry -- the Soviets already have an 18% ownership in the bank in the form of pre-war French shares appropriated from the Germans as reparations; and (4) by demanding revision of the Hungarian-Soviet trade agreement in order to give the USSR a larger share of Hungary's foreign trade.

The Moderates in the Hungarian Government will stubbornly resist the Soviet offensive, confident that the Communists will not publicly support Soviet demands for payments which would spell financial ruin to the nation. The Hungarian Economic Mission, currently in Moscow, may succeed, therefore, in delaying settlement of the Soviet demands until after the Treaty is ratified, when the Hungarian Government hopes that it will be able to exercise greater independence vis-a-vis the USSR, particularly through membership in the UN.

**TOP SECRET**

**Settlement of Soviet Nationals in Eastern European Areas**

One Kremlin method of ensuring continued control over Eastern Europe apparently involves extensive colonization by Soviet citizens of certain politically strategic areas. A substantial number of Soviet families are being settled in eastern Germany and Austria, along the Black Sea Coast of Rumania, and in Bulgaria.

In Germany an estimated 300,000 Soviet nationals are being dispersed through the Polish-administered territories of Pomerania and Silesia. In Austria the settlers generally have occupied the farms along the Austro-Hungarian border; in Rumania and Bulgaria settlement has taken place principally in the coastal areas. Soviet nationals now constitute approximately half of Constanza's population of 100,000; in Bulgaria they now reportedly number 65,000 and may eventually total 200,000.

Especially significant is the geographic pattern which the colonization is following. In Germany and Austria the effect has been the establishment of an ideologically and ethnically solid population-barrier against the West. The settlements in Austria, moreover, form a Slavic corridor connecting the Slavic peoples of Czechoslovakia and Yugoslavia and separating the non-Slavic inhabitants of Austria and Hungary. In Rumania and Bulgaria, a bridge of Soviet nationals is being built in the direction of the Turkish Straits, serving at the same time to cut off the natives of those countries from access to the Black Sea.

In addition to their more or less passive function of serving the Kremlin as ethnic barriers and bridges in vital areas, these settlers are in a position actively to promote Soviet purposes: (1) by joining with local communists in the formation of pro-Soviet underground organizations -- such organizations are already in existence in Austria and Rumania and are being armed and equipped by Soviet occupation commanders; (2) by forming political pressure groups which would seek to persuade local governments to follow pro-Soviet policies or would demand "plebiscites" either on "independence" or on incorporation of their areas into the USSR; (3) by creating "incidents" which would serve as pretexts for armed Soviet intervention in the "protection" of Soviet nationals.

Whatever their immediate function, the settlers will constitute a continuing source of concern to the governments of the countries in which they reside and a potent pretext for Soviet pressure on those governments.

**TOP SECRET**

TOP SECRET

NEAR EAST-AFRICA

Factors Endangering the Viceroy's Proposals

Despite reports that both the Moslem League and the Congress Party have indicated agreement with the Viceroy's proposals (scheduled to be announced on 2 June) for the transfer of British authority in India, at least two factors may prevent their final acceptance by the opposing parties: Gandhi's influence and Moslem obstruction.

Although the exact terms of the proposals are not known, it is understood that they provide for a procedure whereby authority may be transferred to two political entities: (1) areas of India which desire inclusion in the Union of India to be created by the Hindu-dominated Constituent Assembly; and (2) Moslem areas unwilling to join the proposed Union.

Acceptance of the proposals by the Congress Party, as by the League, is thus far tentative. Gandhi, who is not a Congress member but who, as patron saint of the organization, is often able to sway the Party to his point of view, has apparently decided to oppose the creation of a Moslem state in any form. If, as in many previous instances, his influence prevails, there is little chance of a compromise solution of India's problem in the near future.

The second factor involves the proposed division of the provinces of Bengal and the Punjab. Although Jinnah has apparently consented to the division of these provinces and the Viceroy's proposals envisage the division of India into Moslem and non-Moslem areas, the delineation of these areas has not been fixed. Exclusion from Pakistan of all non-Moslem areas (especially the city of Calcutta in Bengal) would scarcely provide what Jinnah considers a "viable" Pakistan; hence, he may attempt to force a division which would be unacceptable to the Congress.

If the proposals prove unacceptable to the Congress Party or to the Moslem League, a new crisis might result, with the more radical elements of either or both sides successfully advocating direct action.

TOP SECRET

TOP SECRET

## FAR EAST

The US-USSR Joint Commission Reconvenes

The willingness of the USSR to reconvene the Joint Commission on terms which it had previously rejected seems to indicate that the current stalemate in Korea is no longer working to the advantage of the USSR. In agreeing to reopen negotiations on the execution of the Moscow Decision, Molotov declared that the USSR was interested in participating with the US in extending to all Korea the economic assistance which the US has pledged to South Korea. The USSR may consequently intend to reach an agreement with the US during the course of coming negotiations in an effort to obtain the benefits of US economic aid. On the other hand, it may again intend to exploit the Joint Commission as a propaganda show in order to place upon the US the blame for repeated failure in carrying out the Moscow Decision. The deliberations of the next few weeks will demonstrate which of these two attitudes the Soviets have adopted.

If the Soviet delegation chooses to quibble over the Commission's mandate in reconvening, it can easily take advantage of the ambiguity which underlies the Marshall-Molotov correspondence. The Commission has resumed its session on the basis of General Chistiakov's offer of 26 November 1946, as interpreted in General Hodge's letter of 24 December 1946. These terms, which had been previously rejected by the Soviets, were accepted by Molotov as an alternative to Secretary Marshall's offer of 2 May. General Hodge's letter of 24 December made important concessions to the Soviet insistence on restricting the participation of Korean parties in the future provisional government of Korea. As Secretary Marshall's letter, on the contrary, proposed to remove all hindrances to a free consultation, the Soviet reversion to General Hodge's letter may indicate a persistent fear of native Korean opposition, and an intention again to block the implementation of the Moscow Decision.

In the meantime, however, Rhee Syngman's rightist parties in South Korea, by exploiting the intense Korean antagonism to "trusteeship," are unexpectedly playing into the hands of the USSR and creating serious difficulties for the US. They are threatening to boycott the Joint Commission and are accusing the US of Soviet leanings in consenting to the reconvening of the Joint Commission and in supporting trusteeship. They have apparently come to prefer a separate government in the US Zone, partly because of their genuine fear of the USSR and partly because of

**TOP SECRET**

their realization that they will not retain in a national provisional government, set up under Joint US-Soviet auspices, the dominant position which they now enjoy in the native administration in South Korea.

The US faces a difficult task in attempting to mediate between the Soviets and their Korean opponents. If the Joint Commission succeeds, the US will be accused of treachery by the rightists; if the Commission fails, the US will almost certainly be blamed by the USSR for the breakdown in negotiations. In the case of a breakdown, the USSR might propose a joint withdrawal of the occupying powers from Korea, thereby presenting the US with the alternative of remaining in South Korea and facing the accusation that it is solely responsible for blocking Korean Independence, or of withdrawing and leaving Korea to the mercy of the strongly organized Communist minority and the Soviet-trained native army of the northern zone.

38

TOP SECRET

48

## CONTENTS

	Pages
TRENDS IN BRIEF.....	1 - iv

## GENERAL

UNESCO as Cover for Soviet Propaganda.....	1
--	---

## WESTERN EUROPE

Top-level Changes in the UK Administration of Germany.....	2
UK Reluctance to Apply Sanctions to Franco.....	2
Prospects for a New Italian Cabinet .....	3
Potentialities of Possible Socialist Support by the Vatican .....	4

MAY  
16

## EASTERN EUROPE

Recent Soviet Attacks on US Press and Radio.....	6
Greek Government Hesitant to Declare Amnesty .....	6
Soviet Interest in US-Rumanian Air Negotiations.....	7

## FAR EAST

Mounting Inflationary Pressure in China .....	9
Restoration of Foreign Interests in NEI Delayed .....	9

## THE AMERICAS

Truman Doctrine Awakens Canada .....	10
Work Stoppage in Colombia .....	10

Document No. 48NO CHANGE in Class.  DECLASSIFIED

Class. CHANGED TO: TS S C

DDA Memo, 4 Apr 77

Auth: DDA REG. 77/1763

Date: 27/1/78 By: 023

TOP SECRET

TOP SECRET

## TRENDS IN BRIEF

### GENERAL

Communist sympathizers in UNESCO are expected increasingly to use that organization as a sounding board for Soviet propaganda (page 1).

### WESTERN EUROPE

Replacement of Hynd by Lord Pakenham as chief of the UK Control Office for Germany and Austria may increase economic cooperation between the US and UK Zones in Germany (page 2).

The UK's reluctance to support sanctions against Spain is primarily based on a desire not to alienate Portugal and upon the British need for certain Spanish imports (page 2).

Communist influence may be substantially reduced in the next Italian Cabinet (page 3).

The current trend toward closer cooperation between the Socialist and Catholic parties in western Europe, in an effort to combat Communism, would be greatly strengthened by the implementation of a recent proposal that the Catholic Church give its sanction to Socialism (page 4).

The possibility of including the French Army in the US-UK arms standardization program has been increased by the removal of the Communists, especially Defense Minister Billoux, from the Ramadier Cabinet. General Revers, Chief of the French Army's General Staff, indicated, prior to the reorganization of the Ramadier Government, that he was in full accord with such a program and that he was doing his utmost to have it introduced in spite of Communist opposition.

### EASTERN EUROPE

Soviet attacks on the reliability of the US press and radio apparently represent an effort to counteract the influence of the "Voice of America" and to explain US popular hostility to the USSR (page 6).

TOP SECRET

TOP SECRET

The Greek Government is reluctant to declare a new amnesty to guerrillas and political prisoners (page 6).

Soviet interest in US-Rumanian air negotiations apparently reflects the belief that an agreement can be of indirect benefit to the USSR (page 7).

The USSR's Second State Loan for the reconstruction and development of the Soviet national economy has, according to the Moscow press, already been oversubscribed by  $2\frac{1}{2}$  billion rubles. While Soviet propagandists point to the oversubscription as proof of the people's patriotism and faith in their government, speculators have been convicted in Soviet courts of buying hundred-ruble loan certificates for 6 rubles and selling them for 10 rubles.

A further lowering of real wages in the USSR is foreshadowed by a series of directives recently issued by the All Union Central Council of Trade Unions. While the directives purportedly seek to "promote the productivity of labor," they entail substantial increases in piece-work norms, thus adversely affecting the earnings of the great majority of Soviet industrial workers.

Stalin's role as a military genius was the keynote of the Soviet Victory Day celebration. Military concepts of defense-in-depth, organized retreat, and counteroffensive as advanced by Stalin were presented as contributions to the basic philosophy of the USSR, comparable to the political-economic contributions of Marx and Lenin.

## FAR EAST

The weakness of the Chinese Government's fiscal position under conditions of intensified military activity has been further indicated by an upward revision of the 1947 budget (page 9).

Re-establishment of foreign commercial interests in the Netherlands East Indies will apparently be delayed for some time, pending completion of negotiations between the Dutch and the Republic and subsequently between foreign owners and the Indonesian Federation of Labor (page 9).

TOP SECRET

**TOP SECRET**

The Dutch position in the Netherlands East Indies outside the Indonesian Republic has been strengthened by the establishment on 12 May of the pro-Dutch autonomous state of West Borneo, headed by the Sultan of Pontianak. West Borneo will cooperate in the establishment of the United States of Indonesia (USI) but will retain management of its own affairs. Eventual affiliation with the pro-Republic areas of East and South Borneo is envisioned in order to form a federated state of Borneo, within the USI.

A peace offer from Ho Chi Minh is reported to be in the hands of a French representative who was sent from south Indochina to Hanoi to sound out Vietnam views regarding an armistice and possible bases for future negotiations. This development is the first concrete step in renewing direct French-Vietnam contacts and represents substantial progress toward a cessation of the costly fighting in Indochina.

The US decision to initiate, unilaterally, distribution of Japanese reparations, as embodied in its interim directive to SCAP calling for advance transfers, has stimulated the members of the Far Eastern Commission to present their individual reparations claims. These claims, submitted on 12 May by all members except Australia, are as follows: Canada, 1½%; China, 40%; France, 12%; India, 18%; Netherlands, 15%; New Zealand, 2%; Philippines, 15%; USSR, 14%; UK, 25%; US, 34%; total, 176½%. No Australian claim was presented as the Australian Government has reversed its previous position and now maintains that the Commission has no authority to allocate reparations. In order to provide a realistic basis for negotiation, the United States has urged each member to suggest a schedule of shares for the other members, but few members of the Commission have indicated a willingness to do so. Unless such schedules are forthcoming, therefore, the Commission again will have failed to make any progress toward a definitive settlement of the reparations problem.

#### THE AMERICAS

A recognition of the implications of the Truman Doctrine has shifted Canadian attention from domestic matters to the international situation and will probably lead to broader Canadian cooperation with US and Commonwealth defense plans (page 10).

**TOP SECRET**

TOP SECRET

Although the Communist-instigated work stoppage in Colombia was quickly ended by Government countermeasures, President Ospina still faces the difficult problem of satisfying the demands of labor and the requirements of US oil companies (page 10).

The Peronistas, despite dissension within their ranks, have emerged from the recent provincial elections in Argentina without loss of strength. In Mendoza Province they polled more votes than all other parties combined. In Catamarca Province, where the conservatives either did not present strong candidates or abstained from voting, the Peronistas scored an easy victory (in the Chumbicha department of Catamarca Province, the Peronista vote was about 3 to 1.). In Jujuy Province the Peronistas polled about three-fourths of the votes cast. Only in Corrientes Province did the election results offer any encouragement to those who would like to see Peron out of power; but, even there, the record shows that many Peronistas deliberately stayed away from the polls and made no concerted effort to prevent a clean sweep by the opposition (Peron lost in Corrientes in the 1946 general election).

Argentina and the US have signed a civil air agreement in conformity with US freedom-of-the-air principles. At one time it appeared that negotiations were about to break down, but direct intervention by President Peron (at the request of Ambassador Messersmith) caused the Argentine negotiators to abandon their restrictive views. The new agreement is a major victory for US civil air policy, both because of the issues it settles between the US and Argentina and because several Latin American countries have been waiting to see what position Argentina would take before coming to terms with the US. A few days after the conclusion of this agreement, a similar civil air agreement was signed between the US and Chile. Although Argentina has reversed its previous position in order to meet US wishes, Argentina air officials clearly have not changed their minds on the points in dispute, and there is evidence that they resent the pressure put on them by President Peron.

TOP SECRET

TOP SECRET

GENERAL

UNESCO as Cover for Soviet Propaganda

The USSR for some time has been taking an active interest in the United Nations Educational Scientific and Cultural Organization (UNESCO) as a cloak for its propaganda (see Weekly Summary of 28 February, page 1).

Despite the fact that the USSR has refused to join UNESCO, the strong nucleus of Communist sympathizers in this organization is attempting to use it to an increasing extent as a sounding board for Soviet propaganda. UNESCO has agreed to participate in a conference (arranged by a well-known Communist) of the International Organization of Journalists to be held in June in Prague, at which the Communists reportedly plan to attack the press and radio of the US as creatures of "big business" and "not free as in the classless Soviet Union." Prague is also to be the site of a Youth Festival, promoted by the Communist-dominated World Federation of Democratic Youth, to which Julian Huxley, Director-General of UNESCO, is reported to have given assurances of support. Finally, at the UNESCO conference in Mexico City next November, the USSR apparently plans to use the World Federation of Trade Unions, an unofficial affiliate of UNESCO, as the channel through which to launch attacks against the American Federation of Labor and US foreign policy.

These examples may be taken as further indications of a Soviet design to turn UNESCO into a leftist political forum.

TOP SECRET

WESTERN EUROPE

Top-level Changes in the UK Administration of Germany

The replacement of Hynd by Lord Pakenham as chief of the UK Control Office for Germany and Austria and the subordination of that office to the Foreign Office (Bevin) may facilitate the economic integration of the US and UK Zones in Germany. Outwardly, the moves reflect very belated reaction by the Government to widespread and severe criticism from all UK factions of the inefficiency and high costs of its administration of Germany.

Hynd, a somewhat doctrinaire Socialist, is noted neither for his ability nor for his friendliness to the US. His successor is a right-wing Laborite intellectual, a Bevin supporter, and a convert to Roman Catholicism. As Undersecretary for War since the Labor Government came to power, Pakenham has demonstrated marked ability. He is inclined to be friendly to the US. It is likely, too, that Catholic influence on UK policy toward Germany will increase (Pakenham has been a leader in the international activities of the Catholic church). The change may also result in decreasing support by the UK of the Social Democratic (Socialist) Party and doctrinaire measures in Germany and in corresponding increase of support for the Christian Democratic Union (moderate Catholic).

UK Reluctance to Apply Sanctions to Franco

The UK Government is not expected to yield to strong pressure from the British labor movement to seek the application of economic sanctions against Spain in order to unseat Franco. Instead it will attempt to forestall any such action by the UN. The UK position is based upon a conviction that Portugal would refuse to participate in applying such sanctions, and upon British dependence on certain Spanish imports, as well as upon Britain's declared reluctance to impose hardships on the Spanish people.

Effective sanctions against Spain, the UK Government believes, would require a naval patrol of all Iberian ports and hence sanctions against Portugal as well. The traditionally excellent UK-Portuguese relations would then deteriorate, and the strategic benefits of the Portuguese Azores to the UK (and US) would be jeopardized.

TOP SECRET

TOP SECRET

Another important British consideration relates to internal UK economy, and consequent repercussions on western European countries. Spain is the principal source of iron pyrites for the UK. Elimination of this import would mean lower steel production and higher coal consumption in the UK, because available substitute ores are lower grade. As a result, the UK contends that it would probably be compelled to seek more steel from abroad and substantial allocations of coal from the European Coal Organization -- to the detriment of other European countries. (This argument obviously rests on the thesis, disputed in some quarters, that economic sanctions would be required over a considerable period to depose Franco.)

Prospects for a New Italian Cabinet

The possibility of excluding the Communists in the formation of a new Italian Government depends primarily upon the ability of the non-Communist parties--except for the extreme Right--to lay aside their traditional discord in the face of a common danger. Premier De Gasperi's resignation was probably influenced by the growing demand in Italy for a coalition without the Communists that could deal effectively with the serious financial and economic problems of the country. The exclusion of the Communists from the Government in France and the intensified Italian desire to obtain foreign economic aid have provided further stimuli to this demand. Italians of all political parties, including the Communists, appear to have interpreted the recent approval by the International Bank of a loan for the Ramadier Government as a clear application of the Truman Doctrine to western Europe.

In view of the timidity and caution which De Gasperi has displayed in the past when dealing with the Communists, he may be unable to form a new Government. Furthermore, the elimination of the Communists from the Government in Italy--or even a reduction in their representation--will be more difficult than it was in France because of the close-working agreement between the Italian Communists and the larger of the two Socialist parties (the Nenni Socialists).

The Premier of a Cabinet with no Communist representation would face, as in France, two major difficulties: the powerful weapon of general

TOP SECRET

**TOP SECRET**

strikes wielded by Communist-dominated labor, and lack of unity among the non-Communist parties. The appeal of a common anti-Communist cause and the desire for application of the Truman Doctrine to Italy may prove strong enough at least to produce a Government in which Communist influence will be substantially reduced. In that event, expert financial leadership and substantial foreign assistance would go far toward restoring public confidence in the Government.

**Potentialities of Possible Socialist Support by the Vatican**

The threat of Communism in France and Italy is inducing increasingly close cooperation among the non-Communist parties (except the extreme Right) who have more in common with each other than with the extreme Left. Even in Belgium, where Communist strength has never been a threat to the principal parties, a gradual rapprochement is taking place between the Socialists and the Catholic Party (counterpart to the French MRP), probably as a reaction to the growing strength of Communism in France and Italy.

In general, the two strongest parties in the non-Communist groupings in all three countries are the Socialist and the Catholic parties. One of the major obstacles to close collaboration between these parties has been the opposition of the Catholic Church to Socialism. If the Catholic Church should reverse its traditional position and give its sanction to Socialism, the prospects for the formation of a cohesive liberal movement in western Europe, capable of resisting both Communism and a rightist reaction, would be greatly enhanced.

A recent report suggests that, under Belgian auspices, an attempt may be made to accomplish this reversal of the Papal position. The Papal Nuncio to Belgium reportedly has suggested to the Prince Regent that Socialist Premier Spaak go to Rome to discuss with the Pope the possibility of obtaining a Papal pronouncement that "Socialism is one form of the political expression of Christian principles."

Such a pronouncement would fall upon fertile ground. In Italy, the Saragat wing of the Socialist Party has definitely rejected the policies and tactics of both the Communists and Nenni's fusionist Socialists. Attempts are being made to unite the Catholic Labor Associations and the Saragat

**TOP SECRET**

**TOP SECRET**

Socialists' labor units in a common front against the Communist domination of Italian labor unions. Saragat has recently reversed his previous stand against cooperation with De Gasperi's Christian Democrats and is now willing to share with De Gasperi a "broadened" coalition government that would exclude the Communists.

A Papal pronouncement on Socialism would probably have its most important effects in France, where the non-Communist coalition is undergoing a test that may decide the future of Communism in western Europe. Premier Ramadier and the Socialist leader Leon Blum have emerged with added stature as a result of their forthright dismissal of Communist Ministers. The Socialist syndicalists and the CFTC (French Confederation of Christian Workers) have been making progress in combatting the Communist control of labor. While the key to the success of the new Government lies primarily in the economic field, the elimination of a major barrier to close cooperation between the Socialist and Catholic movements would be an added source of strength to the liberal anti-Communist forces in France as well as throughout the rest of western Europe.

**TOP SECRET**

TOP SECRET

## EASTERN EUROPE

Recent Soviet Attacks on US Press and Radio

Increasing Soviet concern over the penetration of the "Iron Curtain" by Western ideas and information has been indicated by a series of recent attacks designed to discredit the US press and radio. These attacks have taken the form of: (1) a new, widely-produced play entitled "The Russian Question" which has as its theme the "perfidy" of the American capitalist press; (2) vitriolic attacks by Ehrenburg and others on American broadcasting which is likened to the "misinformation put out by Goebbels"; and (3) various articles and broadcasts on the unreliability of American reporting.

These current attacks are believed to result from a desire to counteract the influence of the "Voice of America" and the US magazine AMERIKA; and to convince the Soviet people, who may well be perplexed by the hostility aroused in the US by current Soviet foreign policy, that this hostility is due primarily to the capitalist-dominated US press.

Greek Government Hesitant to Declare Amnesty

The Greek Government has reacted unfavorably to the US suggestion that a new amnesty be offered to guerrillas and political prisoners. The suggestion was made not only on humanitarian grounds but also in the belief that declaration of a new amnesty would forestall condemnation of the present Government in the UN. The only valid objection presented by the Greeks is that a step of such political import would be dangerous unless some assurance is given them that Soviet satellite aid to the guerrillas will be terminated.

The Greek Government's hesitancy may also be attributed to internal politics. Two amnesty laws (offered in a half-hearted manner by the Government in November 1946 and February 1947) were ineffectual because the confirmed Communists were too well-disciplined to accept the amnesty and believed in ultimate victory, and because both Communists and non-Communist guerrillas distrusted the Government's guarantee of protection. Reports of the harsh treatment meted out to the few guerrillas who did surrender indicate that this distrust was justified.

TOP SECRET

TOP SECRET

A new governmental amnesty would probably be equally ineffectual, as the Communists are still adamant and the non-Communists are even more fearful of reprisals, not only from the rightists but from the leftists as well. In the present ruthless fighting, moreover, where no quarter is given or expected, the Left would consider an amnesty offer to be a sign of governmental weakness.

An internationally-controlled amnesty, such as the Investigating Commission will probably recommend, might encourage some guerrillas to surrender; but an international commission would hardly be able to insure the ultimate safety and rehabilitation of the "amnestees." This matter would have to rest with the Greek Government, which is becoming more and more vindictive and also considers that international supervision would represent an infringement of its sovereignty. At one time moderate elements in the Government were willing to compromise with the Left in an effort to end civil strife. Now, however, they feel more secure with the promise of US aid, and have joined the Right in talking of settling the guerrilla problem "dynamically" (by liquidation) rather than by amnesty.

Unless some form of amnesty can be designed which will also control the passions and hatreds fed by three years of violence, thousands of Greeks will be forced to remain in the mountains or to flee the country.

#### Soviet Interest in US-Rumanian Air Negotiations

The recently disclosed purchase by Yugoslavia of US surplus DC-3 transport aircraft through a Canadian operator probably indicates that the USSR is now willing to permit its satellites to acquire badly needed equipment from the West, despite the attendant drain on their stringent hard currency positions (see Weekly Summary of 2 May, pages 7 and 8). Additional confirmation of a change in Soviet policy may lie in the remarkably sanguine attitude of Rumanian officials at the outset of the US-Rumanian negotiations for an air agreement. Foreign Minister Tatarescu, for example, has asserted that he would "dissipate" any opposition to the negotiations from "special interests." This assertion was probably designed to convey the impression that he would override any obstructive tactics even by Communist elements in the Rumanian Government.

TOP SECRET

**TOP SECRET**

The Rumanians may be expected to conceal Soviet control of their policy and to minimize the extent of Soviet domination of Rumanian air operations.

Tatarescu undoubtedly would not seriously express hopes of concluding an air agreement without knowledge of the Soviet attitude. The USSR may therefore be weighing certain advantages which it might derive from a US-Rumanian air agreement. The USSR probably fears that it cannot obtain modern US equipment without granting to the US landing rights in the USSR; it may therefore hope to obtain such equipment and other benefits indirectly through a US-Rumanian air agreement. While the USSR has probably not committed itself fully to the Rumanians regarding the agreement, it will in any case expect to learn the cheapest price at which Rumania can obtain full US cooperation in civil air matters. Even if the USSR has approved an air agreement in principle, the Rumanians will doubtless be required to hold out stubbornly for maximum US concessions in return for severely circumscribed access to Rumania for civil aircraft.

**TOP SECRET**

**TOP SECRET****FAR EAST**Mounting Inflationary Pressure in China

The Chinese Finance Minister's recent announcement that the Central Government would have to revise its 1947 national budget upward to an expenditure level of CN\$ 20 trillion, with an attendant deficit estimated at CN\$ 10 trillion, represents a new public admission of the fundamental weakness of the Government's fiscal position under conditions of intensified military activity. During the past two weeks, fast-rising prices in Shanghai and many other Chinese cities, accompanied by severe rice shortages resulting in part from the diversion of rice stocks to the Army, have led to a wave of rice riots, public clamor for higher wages, and threats of a general strike in Shanghai. The Government has finally voted to increase the pay of all governmental and military personnel, and it has agreed that workers' wage-scales should be unfrozen and tied to the cost-of-living index, thus setting the stage for a new, and perhaps unprecedented, inflationary spiral.

Restoration of Foreign Interests in NEI Delayed

Re-establishment of foreign commercial interests in Republic territory is impeded at present by dilatory tactics of the Indonesian delegation in negotiations with the Dutch. Members of the Republic Government are unable to agree on economic policies, and on the degree of cooperation to be accorded the Dutch. The restoration of foreign properties to their former owners, provided for in Article 14 of the Linggadjati Agreement, has been undertaken in only one known case. In this instance, British personnel of a British textile factory have returned as technical advisers only, and the control of the factory remains in the hands of the Indonesian Federation of Labor. Dutch entrepreneurs will not agree to this form of restoration and will offer determined resistance to Republican efforts to dominate the management of foreign-owned properties. Moreover, even if a basic economic agreement is reached between the Republic and the Netherlands, protracted and bitter negotiations between foreign owners and the inexperienced, nationalistic Indonesian labor union are in prospect.

**TOP SECRET**

TOP SECRET

THE AMERICAS

Truman Doctrine Awakens Canada

A recognition of the implications of the Truman Doctrine has substantially reduced Canadian preoccupation with purely domestic affairs, directed their attention to the international situation, and has brought home to the Tory, Empire-minded, anti-American "governing class" the fact that they can no longer rely on the UK to defend the Commonwealth.

Public and official reaction to the enunciation of the Truman Doctrine indicates greater concern with national and Commonwealth defense and a marked change in attitude toward Communism (to which many Canadians had been apathetic).

These changes in attitude are expected to result in closer co-operation with the US in Arctic defense plans, heightened anti-Communist feeling, increased political orientation toward the US, and acceptance of a greater share in Commonwealth defense plans.

Work Stoppage in Colombia

Although the 23-hour general work stoppage in Colombia on 14 May was only partially effective because of firm Government counter-measures, President Ospina still must solve the problem of satisfying the demands of labor without causing US oil companies to abandon their Colombian concessions.

Evidence of the gravity of the situation prior to the recent demonstration is provided by Ospina's preparations to flee the country, if necessary, and a request for US transit visas from Soviet Minister Rexanov, who, according to the President, had fomented the strikes and fanned the discontent that led to the work stoppage. The demonstration was planned and organized by the Communist-dominated executive committee of the CTC (Colombian Federation of Labor) and was encouraged by Lombardo Toledano and his Latin America-wide trade union organization, the CTAL. The avowed purpose of the strike was to protest against the Government's failure to remedy the country's increasingly critical economic situation, including food shortages and rising prices.

TOP SECRET

**TOP SECRET**

The abortive character of the 14 May stoppage does not mean that the Ospina Government's labor difficulties are at an end. A Communist-led strike against US controlled petroleum companies is scheduled for 22 May, and there is reason to believe that the left-wing Liberal followers of Eliacer Gaitan -- despite the fact that they hold several portfolios in the Ospina Government -- will support the strikers. Ospina is therefore likely to find himself in a situation where strong resistance to the strikers' demands will lose him his Gaitanist Ministers, while acquiescence in these demands will reopen the troublesome question of possible withdrawal by the US oil companies from the extensive concessions which they hold in Colombia.

**TOP SECRET**

38

**TOP SECRET**

47

**CONTENTS**

	Pages
TRENDS IN BRIEF.....	i - iv
WESTERN EUROPE	
Decline in French Communist Prestige .....	1
EASTERN EUROPE	
Indications of Changed Emphasis in Communist Strategy.	3
Draft Report of US Delegation to Balkan Commission .....	4
The Campaign Against the Guerrillas in Greece .....	5
Proposed Solution for Greek Labor Problem.....	6
Soviet Neglect of Satellite Airlines .....	7
Yugoslav-Ford Contract Imminent .....	8
FAR EAST	
Soendanese Imperil NEI Agreement.....	9
THE AMERICAS	
Brazil Acts Against Communists .....	10

47

Document No. \_\_\_\_\_  
 NO CHANGE in Class.   
 DECLASSIFIED  
 CHANGED TO: TS S C  
 Class. DDA Memo, 4 Apr 77  
 Auth: DDA REG. 77/1763  
 Date: 27/1/79 By: 023

**TOP SECRET**

TOP SECRET

TRENDS IN BRIEF

WESTERN EUROPE

Decline of Communist prestige in France probably will prevent the Communists from exploiting their departure from the Ramadier Government by calling a general strike (page 1).

The recent hunger demonstrations and strikes in Vienna were instigated by the Communists in order to test the resistance of the Government and to force the Socialists into joint action with them on the popular hunger issue. Communist leaders have doubtless been impressed with their own strength and, if the food shortage continues, may succeed in obtaining the support of the relatively small left-wing of the Socialist Trade Union Federation in future strikes and demonstrations.

Political tension in Algeria will probably increase between now and 28 May when a new Algerian Organic Statute is scheduled for debate in the French National Assembly.

The present French Government favors a plan which would eventually change Algeria's status from that of a departmental division of France to that of an "associated state." While the majority of French colonists (approximately 1,000,000) and Moslems (approximately 7,700,000) agree that drastic reforms are needed, the French proposal has been heavily attacked both by the Algerian ultra-nationalists and by the most conservative French colonials.

The present atmosphere of unrest in the Kabylie region of Algeria is not dissimilar to that which preceded the bloody outbreaks in that region in May 1945. To prevent open conflict, the Government is making a show of strength by patrolling this newest danger-spot with tanks and armored cars. These arrangements will probably discourage, for the immediate future, a full-scale insurrection. The Government has seen fit, nevertheless, to designate an additional 5,000 troops in metropolitan France for prompt movement by air and sea in the event of trouble.

TOP SECRET

TOP SECRET

## EASTERN EUROPE

To combat the US program of aid to Communist-threatened countries and the competition of non-Communist liberals for working-class support, the Kremlin apparently is about to launch an offensive to neutralize the influence of non-Communist liberals and to discredit "capitalist attraction and deception of the masses" (page 3).

The final report of the SC's Balkan Investigating Commission is expected to condemn the actions of the satellite states and make recommendations designed to terminate such actions. The Soviet and Polish delegates probably will submit a minority report, and the USSR may veto in the SC any condemnation of Soviet satellites (page 4).

Guerrilla warfare in Greece is expected to continue until the northern border of Greece is sealed or the guerrillas accept an effective amnesty (page 5).

New proposals for solving the Greek labor problem have been presented to the Greek Government by a joint group of UK and US labor experts (page 6).

Failure of the USSR to furnish modern planes and other equipment to the Soviet satellite airlines has led the satellites to resent Soviet domination and may lead them to seek limited commercial relations with the west (page 7).

A contemplated contract between the Yugoslav Government and the Ford Motor Company suggests limited relaxation by the USSR of its ban on commercial relations between its satellites and the US (page 8).

The Soviet food situation has continued to deteriorate since the first of the year. Although bread rations are being fulfilled, the price of bread in the open market has risen from 30 to about 50 rubles (\$10.00) per kilo. Despite food shortages caused by the drought, the Government's reluctance to permit the slaughter of livestock, and the depletion of left-over lend-lease supplies, the Soviet Union apparently is continuing to stock-pile foodstuffs.

TOP SECRET

## FAR EAST

The proclamation on 4 May of an independent Pasoedan State in West Java indicates the existence of disruptive elements within the Indonesian Republic and will complicate the implementation of the recently-signed Dutch-Indonesian Linggadjati Agreement (page 9).

The substantial majority secured by Aung San's Anti-Fascist League in the April elections for a Burmese Constituent Assembly ensures the implementation of the London Agreement of January 1947, which provides for Burma's independence. Of the total of 210 seats in the Constituent Assembly, the League has secured 185, the Communists 7, and the Independents 12. The six seats, for which results are not yet known, will probably be held by League members.

China's new provincial administration of Taiwan (Formosa), headed by Wei Tao-ming, is a dubious improvement over the earlier monopolistic and repressive Taiwan regime of Governor-General Chen Yi. Governor Wei, whose appointment appears to have been designed for US consumption (he was formerly Chinese Ambassador to Washington), is believed to be a "weak sister" of little ability. Wei will probably do no more than comply with Kuomintang-dominated Central Government policy, which appears to be directed toward continued political tutelage and economic subordination of the Taiwanese. Moreover, delay in removing Chen Yi from office provided him with an opportunity to remove some of the most competent native leaders from the local scene. Under the circumstances, the recent political reorganization in Taiwan offers little promise of much-needed political and economic reform for the island or of reducing the long-standing mutual antagonism between Taiwanese and the "mainlanders."

## THE AMERICAS

The recent decision to declare the Brazilian Communist Party illegal indicates that the Brazilian Government has given up its attempt to curb Communism by means of persuasion and will now rely upon police measures to prevent its growth (page 10).

TOP SECRET

**TOP SECRET**

Present indications are that President Gonzalez Videla will cease, perhaps permanently, to collaborate with the Communist Party. Factors which have led to this step include: (1) the reduced vote for his Radical Party in the recent municipal elections (which observers attribute in large part to its then-existing alliance with the Communists); (2) differences between the President and the Communists on the farm unionization bill (see Weekly Summary, 2 May); (3) Chile's mounting economic difficulties; and finally (4) its need for foreign financial assistance.

**TOP SECRET**

**TOP SECRET**

**WESTERN EUROPE**

**Decline in French Communist Prestige**

Communist prestige among French workers in the past few months has declined to such a degree that the Party will probably be reluctant to advocate a general strike unless it feel reassured of the support of a strong majority of French labor.

A turning point in Communist ascendancy in France seems to have occurred at the beginning of the year during the six weeks of Blum's premiership. The popular acclaim then accorded the Socialists' domestic program approached a degree of enthusiasm not witnessed since Liberation days. By their participation in the succeeding government the Communists were able to share in this popularity, but they were also committed to the Government's policy of holding the line on wages and exhorting the workers to greater production. Hence, opposition to Communist control developed within the General Confederation of Labor (CGT) as a result of discontent with working conditions and the feeling that labor was being made to bear the burden of France's rehabilitation. This discontent manifested itself in wildcat strikes, refusal to pay dues, and an increase in the strength of the rival French Confederation of Christian Workers (CFTC).

Although it had been believed that the Communists could count on 75% of the rank-and-file of the CGT, Communist-supported CGT candidates received a bare 50% of the votes in the nation-wide elections held two weeks ago for social security administrators, while CFTC candidates received almost 30%. By espousing the wildcat strike of 30,000 workers in the big Paris Renault plant, the Communists hoped to recoup their position as the leading champion of labor and also to leave the Government on a popular domestic issue. However, this belated Communist maneuver will hardly be able to reverse the recent downward trend in popular support. The present non-Communist government will probably grant essentially what the workers want, namely, increased wages based on increased production, and thus deprive the Communists of an important issue on which to re-establish their position.

**TOP SECRET**

**TOP SECRET**

Premier Ramadier's decision to exclude the Communists from his Cabinet is of particular interest in view of the much-publicized policy of the Socialists, announced last year, that they would refuse to serve in a Cabinet in which the Communists were not represented. The decision probably reflects Socialist recognition of the continuing anti-Communist trend and a hope that this reversal of policy will have the acquiescence of French Labor. The Socialists subsequently announced that their Party "would not lend itself to any anti-Communist coalition." This statement, however, was probably made to satisfy left-wing elements in the Socialist Party, because any success which the present, largely Socialist, Government may achieve will clearly work to the disadvantage of the Communists.

**TOP SECRET**

**TOP SECRET****EASTERN EUROPE****Indications of Changed Emphasis in Communist Strategy**

The Kremlin's concern over the present position of the Communist program abroad -- particularly in central and western Europe -- is reflected in a recent PRAVDA article commemorating the 30th anniversary of Lenin's "April Theses." The article appears designed as a guide to foreign Communist Parties in combatting the US program of aid to countries threatened by Communism and the competition of non-Communist liberals for working-class support -- considerations which the Kremlin apparently believes are sapping the revolutionary strength of the proletariat.

The PRAVDA article compares the current world situation with conditions in Russia in April 1917, when the Revolution threatened to terminate in a parliamentary democracy. Lenin, recognizing the numerical weakness of the Bolsheviks, urged that open rupture with the Provisional Government be avoided until the Bolsheviks achieved sufficient power to overthrow the Government and replace it with the Bolshevik-dominated Soviets (local councils). Instead Lenin urged (1) a revitalization and consolidation of the Party; (2) an intensified propaganda campaign against the Provisional Government and those leftist elements which showed a tendency toward compromise; and (3) increased efforts to gain control of the Soviets through legitimate and conspiratorial means. (Until that time, the Soviets were loosely-organized leftist groups with mass support but without centralized leadership.)

The current applicability of this strategy to central Europe -- where the Communists are delicately balanced between success and failure -- is obvious. In accordance with Lenin's program and experience during the Russian Revolution, the Kremlin apparently proposes for countries such as France and Italy: (1) intensive agitation against their present governments and against non-Communist liberals; and (2) the development of highly-disciplined Communist cores which, at the proper moment, could assume control. Such a program is well-adapted to the current situation in France where, relieved of governmental responsibility, the Communists are in a position to threaten (by propaganda, subversion, and trade-union agitation) the stability of the present Government. Where Communism is less powerful, the Kremlin

**TOP SECRET**

TOP SECRET

desires to concentrate on gaining control of trade unions and other liberal organizations. Current Soviet propaganda evidently envisages the World Federation of Trade Unions as a primary vehicle of Soviet ideological expansion.

The Politburo apparently has decided that the time has come for an all-out offensive, aimed at capturing the leadership of the working class, neutralizing the influence of non-Communist liberals, and discrediting "capitalist attraction and deception of the masses."

Draft Report of US Delegation to Balkan Commission

The US delegation to the Security Council's Balkan Investigating Commission has drawn up a draft of conclusions and recommendations on the basis of the Commission's investigation of Greek border difficulties. The draft states unequivocally that Greece's northern neighbors have been actively assisting Greek guerrillas. It concludes that there is evidence of: (1) Yugoslav, Bulgarian, and Albanian aid to the guerrillas in the form of supplies, military training, transportation, and political indoctrination inimical to the Greek regime; (2) support by the Bulgarian and Yugoslav Governments of a movement to detach Macedonia and western Thrace from Greece; (3) persecution of Greek political opposition groups and trade unions by the Greek Government, the gendarmerie, and Rightist bands. On the other hand, the draft declares that there is no evidence that Greece has encouraged the political activities of Quislings against the northern neighbors, and it cites evidence of political freedom as well as freedom of the press, of speech, and of assembly in Greece.

The draft recommends that the Security Council should: (1) establish a permanent commission to act under Article 33 of the UN Charter; (2) recommend that the four Governments concerned reach agreements which will establish machinery for effective border control; (3) recommend that Greece, Bulgaria, and Yugoslavia initiate negotiations with the object of developing free port facilities in Salonika; and (4) recommend that Greece invite observation by an SC international body of a new Greek amnesty for political prisoners and members of guerrilla bands.

TOP SECRET

TOP SECRET

The State Department objects to certain inconsistencies and confusions in the draft report. Whatever the final form of the report, it is probable that the majority of the Commission will support any general conclusions which condemn the actions of the satellite states as well as recommendations designed to terminate such actions. The Soviet delegate, with Polish support, is expected to write a strong minority opinion on the entire report. Whether in the Security Council the USSR will flagrantly disregard the mass of evidence collected by the Commission and veto any condemnation of the Soviet satellites is uncertain. The refusal of the satellites, however, to participate in, or even to aid the operations of, a subsidiary SC commission now being established in Salonika would appear to point to the probability of a Soviet veto.

#### The Campaign Against the Guerrillas in Greece

Reports of Army operations against the guerrillas in Greece are still indefinite and incomplete, but it is clear that in Central Greece, where the main operations are taking place, the Army has been unable to contain the elusive guerrillas despite territorial gains.

Several conclusions may be drawn from the general military situation. The Army will not succeed in a speedy elimination of the guerrillas by military action alone; guerrilla casualties have been light and surrenders negligible. Although the shift of guerrilla forces southward to conceal their connection with the satellite states has probably weakened their supply and communications systems, they are not yet faced with an acute shortage of ammunition. Furthermore, with the departure of the Security Council's Balkan Investigating Commission they can now re-establish contact with the north and correct supply deficiencies -- unless the Commission's projected subsidiary group can operate effectively. It thus appears that guerrilla warfare, with the accompanying chaos, drain on the government budget, and international ramifications, will continue indefinitely until the northern border of Greece is sealed or until the guerrillas can be persuaded to accept an effective, internationally-supervised amnesty.

TOP SECRET

TOP SECRET

Proposed Solution for Greek Labor Problem

US and UK labor experts, working jointly in Athens, have presented new proposals to the Greek Government and to Greek labor representatives for the improvement of the labor situation in Greece. These proposals, offered as a substitute for the Braine-Tsaldaris plan (see Weekly Summary of 25 April, page 5), are designed to postpone elections in the GCTU (General Confederation of Trade Unions) until the stabilizing effect of US aid has become evident in Greece and to prevent unfair elections or the formation of a Communist-dominated provisional executive at this time.

The proposals provide for a court-appointed caretaker executive body which would: (1) examine the constitution and structure of the GCTU with a view to overhauling the Confederation so that it will operate as a trade union rather than as a political arena; (2) examine labor legislation with the object of reducing governmental interference in the internal affairs of the trade union movement; (3) be assisted in its work by International Trade Union experts; and (4) complete its report by 1 January 1948.

Theoretically, the plan is sound. Disagreement among courts, government, and labor leaders, however, will probably prevent the immediate formation of an effective or representative provisional executive. Barring some such strong step as the imposition of a US-UK plan (as a condition of US aid) or an unlikely rapprochement between Communist and non-Communist union leaders, improvement in the Greek labor situation apparently will depend on --rather than aid in--the general recovery of that country.

TOP SECRET

TOP SECRET

Soviet Neglect of Satellite Airlines

Unless the USSR provides more effective technical and financial assistance for the airlines of its European satellites, the only hope of achieving modern standards of efficiency for these lines will lie in technical assistance from the west.

The Soviet objective with respect to satellite airlines was provisionally satisfied by obtaining operational and policy control. Development of these lines into modern air carriers, however, has been sacrificed to the more pressing demands of internal Soviet airlines. As a result, the satellite lines are the most primitive in Europe. This fact now has assumed greater significance, in view of the new Soviet policy which calls for expansion of satellite air activity into Western Europe. These lines cannot compete in international markets unless they are strengthened. Mazvolet (Soviet-controlled Hungarian airline), for example, has received only four aircraft from the USSR. Its weak financial position has forced it to suspend regular operations, except on one line.

In March 1947, the USSR reportedly assured the satellite airlines of priority over Soviet domestic needs with respect to aircraft and equipment. These assurances, if given, have not yet been fulfilled. It is believed that internal Soviet airlines are being rapidly equipped with the IL-12, a new transport, larger and faster than the DC-3 types with which Soviet and satellite lines have been predominantly equipped. No IL-12's, however, are known to have reached the satellite airlines.

The neglect of the satellite airlines by the USSR has inevitably produced disappointment within the satellites themselves. The Rumanians do not conceal their need for US air equipment of all types, and the Director General of the Rumanian Civil Aviation Bureau has frankly asserted that his Government resents Soviet domination of its air operations. While this statement was probably tendentious, it may give a clue to Rumanian thinking.

The obvious implication is that the satellites, realizing that their most critical deficiencies cannot be eliminated by the USSR, hope that the USSR will not block their efforts to initiate limited commercial relations with the west.

TOP SECRET

Yugoslav-Ford Contract Imminent

Despite Tito's oft-repeated intention of orienting the Yugoslav economy wholly to the East, early signature is expected to a five-year contract between the Egyptian subsidiary of the Ford Motor Company and the Yugoslav Government. The contract stipulates that Yugoslavia will not import other US, British, or French automobiles, trucks, tractors, and parts and will accept a minimum of 300 units annually. Ford agrees to give earnest consideration to the construction of an assembly plant at Fiume which would supply the entire Balkan area. The terms of the agreement indicate that Yugoslavia: (1) expects to obtain little industrial equipment from Czechoslovakia or the USSR; (2) is having great difficulty maintaining equipment received from UNRRA; and (3) desperately needs transportation equipment in order to complete the recently-announced two-year plan.

The undoubted acquiescence of the USSR in the transaction suggests that the USSR may be relaxing to a limited extent its ban on commercial relations between the US and those Soviet satellites which the Kremlin considers "safe." The USSR may sanction additional agreements of this nature in the hope of obtaining, through its satellites, western industrial equipment and techniques for eventual exploitation.

TOP SECRET

**TOP SECRET**

**FAR EAST**

**Soendanese Imperil NEI Agreement**

The proclamation on 4 May of the independence of a Pasoendan State in the Province of West Java by the pro-Dutch Soendanese Peoples Party has added to the difficulties of implementing the recently-signed Dutch-Indonesian (Linggadjati) Agreement. The Soendanese, an ethnic group of from ten to twelve million, occupy the central and southern portions of West Java and have long been hostile toward the Javanese to the north and east. Late in 1946, this hostility led to the formation of the Soendanese Peoples Party which has pressed for recognition of the ethnic distinction of the Soendanese from the Javanese in the Indonesian Republic.

Late in April, the Soendanese Peoples Party, which now claims a membership of 250,000, asserted the right of the Soendanese to self-determination, in accordance with Articles 3 and 4 of the Linggadjati Agreement. These articles provide that the population of any area may decide by democratic process that its relation with the United States of Indonesia (USI) shall be outside the three component parts of the USI: the Republic, Borneo, and East Indonesia.

In its proclamation of 4 May, the Soendanese Peoples Party declared the independence of the Pasoendan State within the USI. The Party asked that the new state receive the same status as East Indonesia after the establishment of a provisional government by a plebiscite in all areas inhabited by Soendanese. The proclamation also recognized the continuance of Dutch sovereignty in the entire Indonesian area during the interim period before the establishment of the USI.

Although the Dutch have denied encouraging the Soendanese movement, the creation of a pro-Dutch state in West Java would suit Dutch purposes in many ways. The establishment of such a state would reduce the area of the Republic, separate the Javanese portion of the Republic from Sumatra, furnish a precedent for later secessions from the Republic in Sumatra and Madura, and reduce Republic prestige elsewhere in Indonesia. The Republic, therefore, can be expected to oppose secession of the Soendanese with every possible means.

**TOP SECRET**

TOP SECRET

THE AMERICAS

Brazil Acts Against Communists

The 7 May decision of the Supreme Electoral Tribunal, which declared illegal the registration of the Brazilian Communist Party, reveals that the Brazilian Government has abandoned its attempt to combat Communism by means of persuasion and will henceforth rely upon police measures to prevent its growth.

This decision -- followed by police raids upon all Communist centers -- came at the end of a two year period of phenomenal growth for the Brazilian Communist party. When the Party was legalized in May 1945, the small number of militant Communists who had survived ten years of repression by the Vargas regime suddenly found themselves free to spread their doctrine throughout Brazil. The legalization came at a time when Communist prestige was high because of the war-time role of the USSR and conditions in Brazil (dissatisfaction with the economic and social order, lack of a democratic reformist movement, and a type of economic organization that permitted the Communists to concentrate their propaganda on large groups of workers in both industry and agriculture) facilitated the growth of the Party. In December 1945, the Communists cast 510,000 votes (8½% of the total) in the national elections. In the January 1947 state elections, they cast 453 (9½% of all votes), scoring several strategic victories in spite of an intensive anti-Communist campaign by the Government and the clergy. In the same period, the Party had won a substantial following in the bureaucracy, among the enlisted personnel of the armed services and in a number of important labor organizations.

The results of the recent elections emphasized the Government's inability to stop the growth of the Communist Party short of repressive measures, and Communist post-election activities forecast a renewed drive to win adherents. Faced with the prospect of further Communist gains, and urged on by militant anti-Communist sentiment in the Army and among conservative political groups, the Brazilian Government may have had no realistic political alternative to the course it has now adopted. On the other hand, the Dutra Government has not yet demonstrated its capacity for positive action, and the repression of a political movement with a mass base distributed over a huge territory is, at best, a difficult government adventure. While the Government's action cannot have caught the Communists by surprise, it is probable that their immediate reaction will be to reorganize themselves for underground action,

TOP SECRET

**TOP SECRET**

pending the outcome of an appeal to the Supreme Court and a re-examination of their strategic position both nationally and internationally. Against this background, it is a safe prediction that the Government can prevent further mass gains by the Communist Party only by adopting police-state techniques on a scale hitherto unprecedented in South America.

**TOP SECRET**

30

WAT 1947

TOP SECRET

46

## CONTENTS

	Pages
TRENDS IN BRIEF . . . . .	i - iv
b7D b7E	
<b>GENERAL</b>	
Anglo-Soviet Treaty Negotiations . . . . .	1
Soviet Strategy in the CFM . . . . .	2
Attitude of the USSR Toward the UN Police Force . . .	2
Soviet Efforts to Exclude US Airlines from Balkans. . .	3
<b>WESTERN EUROPE</b>	
Communists Seek to Arm French Workers. . . . .	5
Apparent UK Aims in Western Germany. . . . .	5
Leftist Trend in Italy . . . . .	6
<b>NEAR EAST-AFRICA</b>	
ICAO Membership Facilitates Iranian Resistance to the USSR . . . . .	8
<b>FAR EAST</b>	
Chinese Influence in Indochina . . . . .	9
The Next Japanese Cabinet . . . . .	9
The Return of Rhee Syngman to Korea . . . . .	11
<b>THE AMERICAS</b>	
Catholic Tactics Score Against Communism in Costa Rica . . . . .	12

46

Document No. \_\_\_\_\_  
 NO CHANGE in Class.   
 DECLASSIFIED  
 Class. CHANGED TO: TS S C  
 DDA Memo, 4 Apr 77  
 Auth: DDA REG. 77/1763  
 Date: 21/11/78 By: 023

TOP SECRET

TOP SECRET

T R E N D S I N B R I E F

GENERAL

Soviet efforts to isolate the US by far-reaching revision of the Anglo-Soviet Treaty have met with stubborn resistance by UK negotiators who refuse to exceed the terms of the French-Soviet Treaty (page 1).

The extreme rigidity of the Soviet position at the CFM appears largely to have been the result of Soviet concern over the implications of the Truman Doctrine (page 2).

The USSR is seeking to delay setting up of UN security forces because it fears that, as a result of the Soviet minority position in the UN, the proposed forces might become the exclusive weapon of the Western Powers (page 2).

Soviet air policy in Europe seeks, through the establishment of a network of satellite airlines, to gain indirect access to western Europe while excluding US airlines from eastern Europe (page 3).

WESTERN EUROPE

Communist proposals to arm French workers are not expected to gain wide popular support (page 5).

UK proposals for the economic development of the US-UK Zones in Germany are based on a desire to realize German economic self-sufficiency but also look toward the creation of a socialist western Germany and the formation of a system of non-Communist socialist states in western Europe (page 5).

The strength of the leftist trend in Italy is overlooked by observers who insist that the Christian Democrats still hold the balance of power between the Left and the Right (page 6).

General Franco's position is being strengthened by widespread rumors in Spain that the US is modifying its unfriendly attitude towards Franco because of his uncompromising enmity towards the USSR, and that as a result the US will grant credits to Spain. These rumors are helping Franco retain the essential support of the Army. The military

## TOP SECRET

leaders will support Franco as long as their special privileges continue and as long as they do not anticipate any adverse consequences from the hostility of foreign countries. Meanwhile, the increasing tendency of the UK to do business with Spain aids Franco's contention that in the end the Western Powers will welcome him as a friend.

The protests of recently-established US business interests in Morocco against alleged trade discrimination by the French has been seized upon by native nationalists to promote the idea that the US is supporting their cause. While the nationalists have always pursued an opportunistic policy--hinting variously at US, or Communist, or even USSR backing--reported "loose talk" by US nationals in Morocco has led certain French officials to believe that the US is encouraging Moroccan nationalism, even to the extent of subsidizing the nationalist press. This belief, unless checked, provides French Communists with excellent propaganda material to add to their thesis that the real threat to the maintenance of the French Empire is not Communism, nor the USSR, but US "imperialists".

## NEAR EAST-AFRICA

Iran apparently intends to adopt a stiffer attitude toward the USSR on air matters, justifying its course by obligations inherent in its impending membership in ICAO (page 8).

Recent Soviet protests against Iran's "anti-Soviet and pro-US policy" probably indicate that, in anticipation of the implementation of the US program for aiding Greece and Turkey, the USSR is trying to strengthen its position vis-a-vis Iran. Increased pressure on Iran is undoubtedly designed to force ratification by the Parliament of the Soviet oil concession, which, if obtained, might tend to counter expanding US interests in Iran. Indications are, however, that the Iranians intend to resist Soviet pressure and coercion in the matter of the oil concession.

Demands for Turkish territory by the USSR on behalf of the Armenian SSR will undoubtedly be repeated at a meeting now in session in New York of an organization without official status called the "Armenian National Council." The Council is also expected to air older Armenian grievances against the Turks and possibly to discuss a further demand for Turkish territory unofficially made by the Soviets on behalf of the Georgian SSR. Although claims made by the Council

TOP SECRET

will have no effect upon Turkish determination to resist Soviet pressure, Moscow may be expected to use such claims to intensify its anti-Turkish propaganda.

FAR EAST

Reduction in Communist strength in the Vietnam Government may be achieved by the French only by enhancing Chinese influence in the area (page 9).

The new Japanese Government apparently will be formed by the right-wing Social Democrats. Like the present Yoshida Government, it is expected to face opposition from Japanese labor unless it is able to alleviate economic distress (page 9).

Korean rightist leader Rhee Syngman, in anticipation of the reconvening of the Joint Commission, may be prepared for a reconciliation with the US Military Government (page 11).

Soviet propaganda attacks on US policy in China have increased markedly during the past fortnight. Articles in the Soviet press, and broadcasts to North America and Japan, emphasize the following themes: (1) American military forces remain in China and continue to commit atrocities; (2) United States intervention on the side of the Kuomintang consists almost exclusively of military assistance which has aggravated the civil war and prevented economic stabilization; (3) under the guise of rendering assistance, the United States is usurping control of China thus reducing China to the status of a colony; (4) American and Chinese reactionaries quashed Molotov's proposal for discussion of China at the Moscow CFM, a proposal "widely acclaimed by Chinese democrats"; and (5) recent Chinese governmental reorganization is merely a maneuver by Chinese reactionaries to camouflage the dictatorship of the Kuomintang.

Serious irregularities in surplus property disposal in the Philippines, which may involve losses through theft and pillage amounting to more than half of the saleable surplus, are currently under investigation by the Philippine Congress and US representatives. The terms of the Philippine Rehabilitation Act, and the surplus property agreement between the US and Philippine Governments, call for the

TOP SECRET

realization by the Philippine Government of US\$ 137,000,000 from the sale of the US surplus property which was transferred to the Philippine Government. The probable findings of the investigations suggest that the Philippine Government may approach the US Government for an appropriation of at least an additional US\$ 25,000,000 to cover the total US dollar commitment under the surplus property agreement.

THE AMERICAS

Communist influence in Costa Rica has been reduced by the development of a rival labor union under Catholic auspices (page 12).

Chile's new Cabinet of eleven Radicals and one Democrat, formed by President Gonzalez Videla on 16 April as a "temporary expedient," is not expected to remain long in office. The major political issue in Chile is the farm unionization bill, which the Communists oppose on the ground that, even if it is amended in accordance with a new rightist-approved proposal by the President, the bill would not unionize all farm laborers. Gonzalez, who has recently accused the Communists of more concern with the political effects of farm unionization than with the economic benefits it would bring to agricultural labor, probably will face increasing opposition from the Communists and the Communist-led labor movement. Gonzalez has expressed the hope that he can hold the Cabinet together until the national convention of the Radical Party early in June.

TOP SECRET

GENERAL

Anglo-Soviet Treaty Negotiations

Recent negotiations in Moscow for the revision of the Anglo-Soviet Treaty of 1942 have so far resulted in an attempt by the USSR to obtain a pact which would be unacceptable to any important power. The Soviet draft contains a clause which pledges the two powers to refrain from any "direct or indirect" move against each other. According to PRAVDA, the intention of the clause is to "bind both parties to take no part in any agreements or measures aimed even indirectly against the other party." The clause, however, could logically be invoked against the standardization of arms by the UK and the US, an anti-USSR vote in the Security Council, or substantive opposition to policies of the USSR.

Although Bevin has been reluctant to negotiate the revision of the Treaty, he has pursued the matter for domestic political reasons. He has sought, however, to limit the revision to deletion of obsolete sections from the old Treaty and insertion of a reference to the four-power pact proposed by the US. Bevin and his negotiators have also refused to permit isolation of the US, or to go beyond the terms of the recent Anglo-French Treaty.

Although Soviet negotiators have argued persistently for the prohibition on "direct or indirect" moves, it is doubtful if they expected the British to consent to the clause. The USSR may desire a compromise agreement short of the original clause which would tend to isolate the US; or, failing such a compromise, it may prefer no agreement, in order to create the impression within the UK that Bevin is rejecting "friendship" with the USSR. In view of the firm UK position, the latter alternative appears more likely. Nevertheless, Bevin's position at home should be secure as he can demonstrate that he offered terms as generous as those in the Anglo-French Treaty.

Despite the current stalemate, the UK has denied reports that negotiations have broken down and considers that the next move is up to the USSR.

TOP SECRET

TOP SECRET

Soviet Strategy in the CFM

The Soviet Delegation at the recent CFM meeting obviously was intent upon delaying or preventing the solution of most of the vital issues under discussion.

A major consideration underlying the Soviet strategy was probably the dilemma in which the Kremlin was placed by the announcement of the Truman Doctrine. The USSR could not immediately adopt a more conciliatory policy without offering confirmation that the President's program was effective in checking aggression. The USSR likewise could not harden its policy without encouraging increased support in the US for the Truman Doctrine. Furthermore, the encouragement which the President's statement gave to European anti-Communists may have increased the Kremlin's concern over its eastern European position and its determination to block an Austrian Treaty in order to maintain Soviet forces in that country and communication troops in Hungary and Rumania.

The USSR, therefore, may have considered it even more imperative: (1) to prolong the unsettled conditions in Europe conducive to Communism; and (2) to encourage the US to expend its patience and energy in a vain quest for agreement until forced by its internal economic and political conditions to curtail its foreign commitments and to leave Europe to the USSR by default.

The Kremlin now appears concerned over the reaction which its obstructionism has produced among the Western Powers. Through diplomacy and propaganda, the USSR seems to be seeking to reassure the West by insisting that the achievements of the Conference should not be minimized and that "time and patience" eventually will solve most of the remaining problems. For the present, therefore, the Kremlin appears to be pursuing a dual policy of preventing a European settlement while trying to keep alive western hopes that such a settlement eventually may be possible.

Attitude of the USSR Toward the UN Police Force

In the deliberations on the draft of the forthcoming report on Basic Principles prepared by the Military Staff Committee of the Security Council, the USSR has betrayed fear that, because of its minority position in the UN, the proposed UN security forces might become a weapon in the

TOP SECRET

TOP SECRET

hands of the Western Powers. As a consequence of this fear, the USSR has sought to delay the setting up of UN security forces. It has taken positions which disclose a design not only to render any UN armed force impotent in dealing with aggressors, but also to reduce the relative effectiveness of military contingents contributed by major powers other than the USSR.

The USSR has insisted on a doctrine of equality which would mean that each member of the Big Five would contribute exactly the same numbers and types of components to any UN armed force. This doctrine would tend to reduce the efficacy of the security force by restricting the types of available weapons to the lowest common denominator among the Big Five. As this circumstance would prevent the UN forces from having the finest types of new weapons, the USSR would be at an advantage because its remote land mass and great manpower can be successfully attacked only by the use of modern, long-range weapons. Furthermore, the USSR has consistently contested any proposals designed to furnish UN armed forces with springboards and bases from which to forestall aggression. The USSR also has objected to reference to so elementary a principle as that concerning the advantages accruing from prompt military action, which the Soviet delegate characterized as unnecessary and not a basic principle.

#### Soviet Efforts to Exclude US Airlines From Balkans

Soviet air policy in Europe has now developed to the point where a clash of interests with the US can no longer be avoided. The Soviet intention is clearly: (1) to create an integrated network of Balkan satellite airlines (Soviet operated and controlled); (2) to extend this network by means of limited air agreements with selected countries through which the USSR will gain indirect access to western Europe; (3) to exclude US airlines from the satellite states, while agreeing to the exchange of air traffic at points farther to the west.

A plan for the implementation of this policy has been prepared at Soviet direction by the Hungarian airline Mazovlet. While the USSR has not yet formally approved the plan, it has prompted Hungary, Rumania, and Yugoslavia to proceed with negotiations for the necessary air agreements. In addition, it has authorized the satellites to initiate discussions for air agreements with certain western European countries.

TOP SECRET

TOP SECRET

The Rumanian Tars has proposed to France and Switzerland an airline to Paris via Zurich; Mazovlet has approached the Swiss, Czechs, Danes, Swedes, and Norwegians for bilateral agreements; and Yugoslavia is negotiating with Czechoslovakia.

Resistance will inevitably increase against the Soviet scheme of using satellite airlines as a front. The western European countries are all members of ICAO (International Civil Aviation Organization) and will, accordingly, be unlikely to sign air agreements with the satellite states unless fully reciprocal rights are obtained. If the Soviets resort to the subterfuge of air agreements on a company level, the airlines of the Western Powers will find little incentive in the terms likely to be offered.

Meanwhile, US efforts to obtain commercial air rights in Rumania and Hungary for US carriers have been blocked by Soviet occupational authorities. (The Soviet contention that these countries are not free to accord such rights until the peace treaties are signed is patently invalidated by Soviet approval of satellite air negotiations with other states.) The US is thus faced with complete denial of air access to these states after the scheduled deactivation of the US military European Air Transport Service on 30 June.

The US State and War Departments have now decided to force the issue by insisting that the USSR, as the occupying power, may not permit the satellites to negotiate air agreements with other countries unless it also sanctions air agreements with the US. If the USSR does not modify its position, the stalemate will continue, at least until the peace treaties are ratified, after which Hungary and Rumania will be required by the treaty terms to accord certain inconsequential air rights to the Western Powers.

Even if the USSR decides that reciprocal air agreements between the satellites and the US would be to Soviet advantage and yields to the US protest, the satellites would inevitably nominate the Soviet-controlled airlines as their designated carriers. Such action would compel the US to accept the alternative of refusing the arrangements on the grounds that the satellite airlines are foreign controlled, or of accepting the nominations with the attendant danger that the USSR would covertly use these lines to further Soviet political objectives. Consequently, the prospects of a satisfactory solution are remote.

TOP SECRET

TOP SECRET

## WESTERN EUROPE

Communists Seek to Arm French Workers

After prolonged but relatively unsuccessful efforts to increase Communist infiltration and control of the French armed forces, Communist Defense Minister Billoux has made public his thesis of national defense. His proposals, which amount to the arming of the working classes under the guidance of the Communist Party, reflect purest Bolshevik doctrine.

The Army's new plan for military training has now provided the indefatigable Billoux with a new target. Under the plan, the state would provide "pre-military" training centers for new conscripts. The Communist Defense Minister, after characterizing the Regular Army as "professional" and "an instrument for a coup d'etat," urged in a speech on 25 April that certain youth and labor organizations (now Communist-dominated) be responsible for this training. Billoux proposed drastic changes in the national defense setup, and insisted that the Army must become more "democratic" with no division between Regular and Reserve. This objective would be accomplished through the establishment of local "security forces" based on shipyards, factories, villages, and city quarters. These forces would be capable of arising instantly as guerrillas to repel an "invasion."

Billoux's proposals are certain to be resisted vigorously by military leaders, especially Generals Juin and Revers, as his plan would eliminate the effectiveness of the Army in combatting any attempted Communist coup. His appeal, however, can be expected to stir sympathetic feelings among Frenchmen with memories of the failure of the French Army in 1940 and the subsequent relative success of the popular Maquis. Nevertheless, it is unlikely that the French would break with their long-and widely-understood military tradition, if only because they realize that piecemeal operations by guerrilla forces cannot successfully defend France against a strong and organized foreign enemy.

Apparent UK Aims in Western Germany

Recent UK proposals for the economic development of the US-UK Zones call for a degree of centralized economic planning in western Germany which runs counter to US policy. The failure of the Moscow

TOP SECRET

TOP SECRET

Conference to achieve the economic unification of Germany emphasizes the importance of the US-UK economic zonal merger. It has become imperative that the US and UK put their Zones on a sound economic basis in order to relieve themselves of the expenses of occupation. Exports from the Zones must be increased in order to pay for necessary imports.

In the US view, the UK has been relegating the export problem to second place while concentrating its efforts, through a centralized planning board, on the development of a planned economy and the socialization of industry. (This board, the Bi-Zonal Economic Committee, is made up of the Economic Ministers of the six Laender and the two free cities of Hamburg and Bremen. Each member is a Social Democrat, the Party which has long been the object of benevolent British regard.) As US occupation authorities favor a minimum of central control over production of export goods, agreement between the Zonal Commanders could not be reached and the issue has now become a matter for discussion at the governmental level between the US and the UK.

The British desire for a strong central control is based upon a conviction that central planning offers the most immediate way to relieve the taxpayers at home of the occupation expense. At the same time, the UK proposal apparently looks toward the creation of a socialist western Germany, in harmony with the British Government and subject to British guidance, and to the formation in western Europe of a system of non-Communist socialist states.

#### Leftist Trend in Italy

The success of the People's Bloc (Communist and Socialist) in the recent Sicilian elections is attributed to the Communist support of the Lateran Pact (which went far to remove from the Party the taint of anti-clericalism) and to the proposed division of certain large land holdings into farms for the peasants. Even in a region as conservative and Monarchist as Sicily, the Italian peasants and workers have responded to their desperate economic situation by casting their votes with the party whose strength heretofore has been found mainly in the industrial centers. Observers make much of the fact that the Christian Democrats still hold the balance of power between the Left and the Right in the changing political picture of Italy as a whole; but such a view overlooks the

TOP SECRET

**TOP SECRET**

strength of the trend toward the Left throughout the country. Unless present economic conditions improve, it seems clear that in the forthcoming national elections the leftist bloc will gain a dominant position in the National Assembly.

**TOP SECRET**

TOP SECRET

NEAR EAST-AFRICA

ICAO Membership Facilitates Iranian Resistance to the USSR

There are a number of indications that Iran intends to utilize the obligations of its impending ICAO (International Civil Aviation Organization) membership as justification for adopting a firmer attitude toward the USSR in air matters. Such a justification is particularly advantageous to Iran at this time, because the recent Soviet protest against the anti-Soviet attitude of the Iranian Government has placed Premier Qavam in a defensive diplomatic position vis-a-vis the USSR.

Membership in ICAO, particularly if Iran obtains a Council seat, will commit Iran to the principle of reciprocity advocated by the US. General Firuz (chief of the Iranian delegation to ICAO and uncle of the pro-Soviet Ambassador to Moscow) has already asserted that Iran "must demand reciprocity from any country seeking to fly to Iran." (This is a belated about-face by Firuz, who last year favored a proposed joint Soviet-Iranian airline monopoly in Northern Iran.) Qavam likewise has promised to take action against the continued unauthorized commercial operations of a Soviet airline in northern Iran by insisting that, if these operations are to continue, the USSR must grant reciprocal air rights to Iran.

A demand for reciprocal air rights in the Soviet Union, in return for Iranian sanction of present Soviet activity in northern Iran, is not likely to be successful. On the other hand, a firm Iranian stand, backed by the prestige of UN-sponsored ICAO, will embarrass the USSR, even though it will probably not succeed in inducing the USSR to abandon its air operations in the northern provinces.

TOP SECRET

TOP SECRET

FAR EAST

Chinese Influence in Indochina

The failure of French authorities in Indochina to restore contact with representatives of the Vietnam Government has encouraged the emergence of several Annamite groups in which there is substantial Chinese influence. Basic Chinese policy with regard to Vietnam is directed toward the establishment of a regime under Chinese influence, if not direct Chinese control, with particular emphasis upon Chinese racial affinity with the Vietnamese. The continuing deadlock between France and Vietnam provides an opportunity for China to seek a stronger position in Indochinese affairs, utilizing pro-Chinese Annamites to reduce French influence and to prevent the further development of Communism in Vietnam.

One group amenable to Chinese direction is the Vietnam Quoc Dan Dang, or Annamite Kuomintang, which enjoyed a prominent role in Vietnam affairs during the Chinese occupation of northern Indochina. When Chinese forces were withdrawn in June 1946, this group was ousted by the Viet Minh under President Ho Chi Minh and fled to China where it established a quasi-government-in-exile.

Moderate elements of the Annamite KMT are believed to have joined the National Union Front, a coalition of minor Annamite anti-Communist parties which desires the return of the former Emperor of Annam, Bao Dai, to head a provisional government of Vietnam.

Although the National Union Front has declared its opposition to French dominance in Indochina, its anti-Communist views may induce the French to accept its participation in a coalition Vietnam Government with which the French will negotiate to end present hostilities. Reduction of Communist strength in the Vietnam Government, therefore, may be achieved only at the cost of enhancing Chinese influence in the area.

The Next Japanese Cabinet

Although the new Lower House of the Japanese Diet, elected on 25 April, is essentially conservative, the emergence of the Social Democrats as the largest party indicates a popular desire for a shift towards

TOP SECRET

**TOP SECRET**

the left and considerable dissatisfaction with the present Yoshida Cabinet for its failure to control inflation (see Weekly Summary of 4 April, page 4). The next Japanese Government will probably be headed by Tetsu Katayama, chairman of the Social Democratic Party's executive committee.

In the new Lower House, the Social Democrats will have 143 seats, the Liberals 133, the Democrats 126, and the People's Cooperative Party 31; while in the old House, the Social Democrats had 98 seats, the Liberals 140, the Democrats 145, and the Cooperative Party 63. (The loss of two seats by the Communists, who had six representatives in the old Lower House, reflects the reaction against Communist influence currently prevalent throughout the Japanese labor movement.) In order to obtain a majority in the Diet, the Social Democrats must form a coalition with one or both of the two major conservative parties: the Democrats and the Liberals.

Cooperation with the conservatives, however, will probably cause a split in the Social Democratic Party. The discipline of this Party has been notoriously lax because of the constant antagonism between the right and left wings. The right-wing leaders, who are entrenched in positions of control within the Party and its trade union affiliates, are bitterly opposed to collaboration with the Communists. The left-wing leaders, on the other hand, have a working agreement with the Communists and command a strong following in the labor movement at large. This rivalry of the right and the left wings has thus far prevented the formal alignment of the Social Democrats either with the conservatives or the Communists. Now that the Social Democrats are the largest party in the Diet and the indicated leaders of the next government, a split can hardly be avoided. The numerically-smaller left wing will probably break off and become another splinter party in the Diet, while the right wing assumes its leadership in the Government.

The new Government, like the present Yoshida Government, will face the opposition of Japanese labor unless it is able to alleviate economic distress in Japan. A solution of Japan's economic difficulties is beyond the powers of the Japanese Government alone. The economic recovery of Japan depends upon the revival of foreign trade as well as upon the prompt settlement of the reparations question.

**TOP SECRET**

**TOP SECRET**

**The Return of Rhee Syngman to Korea**

The rightist leader and former president of the Korean government-in-exile, Rhee Syngman, has now returned to South Korea with increased prestige from five months' travel abroad. Rhee left South Korea early in December 1946 with the encouragement of the US authorities who believed that his departure might ease the prevailing tension between Right and Left. Rhee's popularity seemed to be waning at the time of his departure, but international developments during his absence have apparently added to his reputation in South Korea. The US program of economic aid for Korea was announced before Rhee's departure from Washington, and Chinese support for early Korean independence was reaffirmed during his stay in Nanking. The Korean Right has given Rhee a large measure of credit for these friendly gestures by foreign powers and the South Korean Interim Legislative Assembly has rallied to his support.

Rhee has always been one of the principal Korean exponents of resistance to Soviet domination, and, as a result of his trip abroad, he may now be more reasonable and cooperative than he has been in the past. Rhee may be prepared, therefore, for a reconciliation with the US Military Government in anticipation of the reconvening of the Joint US-Soviet Commission.

**TOP SECRET**

TOP SECRET

THE AMERICAS

Catholic Tactics Score Against Communism in Costa Rica

Costa Rica, one of the few Latin American Republics in which the Communist movement is on the wane, is no longer a Communist stronghold (as it was a few years ago) largely because of the activities of its Roman Catholic hierarchy.

Since 1943 (when the Third International was dissolved) Costa Rica's Communist Party has chosen to call itself Popular Vanguard, thus distracting attention from its origin while retaining its claim to leadership of the country's workers in their struggle for a socialist state. Under this new name, it entered the country's governing coalition and was able to win for itself the freedom of action it needed in order to make Costa Rica a useful base for Communist activities. Also, because of the democratic and reformist emphases in its propaganda, it was able to attract to its membership (and to that of the Confederation of Costa Rican Workers which it dominates) large numbers of Roman Catholics.

Archbishop Victor M. Sanabria, Costa Rica's ranking prelate, though at no time deceived by Popular Vanguard's change of front, refused to take the steps to which he might have been led by strict interpretation of Catholic doctrine and the example of his colleagues in other Latin American countries. Instead of exposing the Communist identity of the movement and admonishing Costa Rican Catholics against joining it, (1) he expressed publicly his belief in the sincerity of the motives of Popular Vanguard; (2) in 1943, however, he sponsored the organization of Rerum Novarum, a labor group designed to compete with Popular Vanguard and the Confederation of Costa Rican Workers for mass support; and (3) he waited until Rerum Novarum had become firmly established and was gaining ground before he attacked, on 29 March 1947, the Marxist character of Popular Vanguard and advised Catholic members to withdraw.

This open attack by the Archbishop tends to remove one of the main props to the "respectability" of Popular Vanguard, and it is probable that the influence of that organization will continue to decline as its Communist character is made increasingly apparent to the Costa Rican public.

TOP SECRET

38

TOP SECRET

45

CONTENTS

TRENDS IN BRIEF ..... Pages  
i - iii

APR

35

GENERAL

Communist Influence in the WFTU ..... 1  
General Assembly Faces Difficulties on Palestine Issue ... 2

WESTERN EUROPE

Non-Nationalist Colonial Stand of French Communists .... 4

EASTERN EUROPE

The Greek Labor Problem ..... 5

NEAR EAST-AFRICA

Possible Effect of Jinnah's Retirement ..... 7

FAR EAST

Possibility of French-Vietnam Negotiations ..... 8  
Reduction of Soviet Troop Strength in North Korea ..... 8  
Inflation Threatens Chiang Kai-shek's Military Efforts ... 9

Document No. 45

NO CHANGE in Class.

DECLASSIFIED

Class. CHANGED TO: TS S C

DDA Memo, 4 Apr 77

Auth: DDA REG. 77/1763

Date: 27/1/78 By: 023

TOP SECRET

TOP SECRET

TRENDS IN BRIEF

GENERAL

An attempt to consolidate Communist forces into an international labor organization is apparent in the recent activities of the WFTU (page 1).

UN consideration of the Palestine issue will raise many difficulties (page 2).

WESTERN EUROPE

The French Communists are expected to continue their opposition to the Government's Madagascar policy, although such action is unpopular with the majority of the French people and might cause the fall of the Ramadier Government and the exclusion of the Communists from a new Cabinet (page 4).

The unexpected victory of the Communist-Socialist bloc in the recent Sicilian elections and the decline in the strength of the Christian Democrats confirm the trend of the Communal elections held in October and November 1946, and suggest that in the forthcoming national elections the Communist-Socialist bloc will gain at the expense of the centrist Christian Democrats. The center, however, will probably hold the balance of power and may have to choose between the left and the right in the new Government.

Failure to conclude an Austrian treaty in Moscow will impose the severe strain of continued four-Power occupation on the Austrian coalition Government. The majority People's Party, confronted with internal friction, has been slowly losing popular support to its chief rival in the coalition Government, the Socialist Party. The present Government is, nevertheless, expected to remain in power because the Socialists are unwilling to force a new election in the face of the present Soviet threat to Austrian independence. The small Communist Party will benefit from the continued presence of the Soviet military, but is too weak to upset the Government by parliamentary means.

TOP SECRET

TOP SECRET

## EASTERN EUROPE

Political rivalry between Communists and non-Communists in the Greek labor movement has led to an internal dispute over leadership of the national Confederation and to divergent US and UK positions regarding a solution (page 5).

The first overt dissension within the Communist-dominated Polish Government bloc since the January elections occurred recently in Parliament when the majority of the bloc's non-Communist members refused to back the Government's opposition to a motion to exempt civilians from the jurisdiction of the military courts. Although the motion was defeated, this minor revolt reflects some slight independence of action on the part of non-Communists in the Government, particularly in the realm of civil liberties, and the Communists may eventually be compelled to make some concessions on this issue.

Rejection by the Yugoslav Government of a joint US-UK note concerning Yugoslav war criminals now in Italy indicates that the Yugoslavs will exert considerable pressure on Italy unless the US and UK can resolve the problem before their withdrawal. In answer to the US-UK recommendation that Italy establish the guilt of alleged Yugoslav war criminals prior to their extradition, Tito asserted that Allied military authorities must bear the responsibility for the arrest and return of all Yugoslav Quislings at large, and that only the Yugoslav courts are competent to establish the extent of guilt of the accused.

## NEAR EAST-AFRICA

If Jinnah soon retires from leadership of the Moslem League, as is suggested by reports of failing health, his withdrawal is not expected materially to affect Indian political developments (page 7).

## FAR EAST

Present conditions in French Indochina are propitious for resumption of French-Vietnam negotiations which are expected to be started, at least covertly, in the near future (page 8).

TOP SECRET

**TOP SECRET**

Reduction of Soviet occupation forces in Korea to approximately 100,000 appears attributable primarily to political and economic considerations (page 8).

Recent Chinese appeals for US financial aid probably reflect Chiang Kai-shek's fear that an explosive inflation in China, attended by collapse of the national currency, might paralyze Nationalist military efforts to achieve speedy suppression of the Chinese Communists (page 9).

**TOP SECRET**

**TOP SECRET****GENERAL****Communist Influence in the WFTU**

The recent activity of investigating commissions sent by the WFTU into Africa, Korea, Japan, Iran, and Germany has evoked official concern over Communist influence in the World Federation of Trade Unions and the possible subversion of the WFTU to Soviet political aims.

According to US Embassy Paris, the WFTU conference held in Dakar early in April "is a good example of how Communist organizations are busily attempting to construct trade-union strongholds under Communist control or partial direction in various African territories." In Korea, the Communist hand was clearly evident in the visit of the WFTU delegation headed by Louis Saillant, pro-Communist Secretary General of the Federation (see Weekly Summary of 18 April, page 12). In Iran, a sharp cleavage developed between Communist and non-Communist factions in the WFTU commission visiting that country. In Germany, the Communist program has taken the form of a campaign aimed at achieving for the WFTU exclusive guardianship and tutelage of the German trade union movement. In Greece, organized labor is sharply split into Communist and non-Communist factions, while the WFTU is engaged in strenuous efforts to bring about a reconciliation on terms which will insure Communist domination.

Until lately, Soviet participation in the organization has been characterized by some restraint, probably indicating Moscow's reluctance to show its intentions too clearly lest it provoke the withdrawal of the WFTU's Anglo-American affiliates. Now, however, Soviet designs are becoming apparent. US Embassy Moscow observed on 19 April: "Communist leadership and control having been assured by cautious and deliberate organization, the WFTU now clearly is being developed by Soviet diplomacy as the most effective instrument since the Comintern for penetrating colonial and dependent areas."

Anglo-American affiliates of the WFTU -- generally unsophisticated in matters of international politics and lacking the discipline, unity of purpose, and official guidance enjoyed by their Communist colleagues -- have shown little aptitude for meeting this challenge. Unless the Western trade unionists can achieve substantial unity, and unless their program can be more closely coordinated with the policies of their respective

**TOP SECRET**

**TOP SECRET**

governments, the chances of preventing the WFTU from becoming completely subservient to Soviet policy will be slight. The WFTU may therefore succeed, where the Comintern failed, in building up for the Kremlin an international Communist organization with a substantial base among the masses.

**General Assembly Faces Difficulties on Palestine Issue**

With the opening of the special session of the United Nations General Assembly in New York on 28 April, Palestine for the first time becomes a UN concern rather than the sole responsibility of the United Kingdom, the Mandatory Power. Lack of precedent makes difficult any attempt to streamline the work of the special session, which was summoned by Secretary General Lie (at the request of the UK) for the single purpose of appointing a committee to study the Palestine problem and to prepare a report for the regular meeting of the General Assembly in September.

The aim of the major powers (UK, US, and USSR) to limit the agenda of the special session to procedural issues has already been challenged by all five Arab member states, which have submitted to the Secretariat substantive proposals demanding the termination of the Mandate, and the independence of Palestine. Although the Arab States can hardly win the two-thirds majority necessary for consideration of their proposals, discussion of these resolutions will prevent a speedy conclusion of the session.

Even if the special session concentrates its attention on the single procedural issue of appointing a committee to study the Palestine question, lengthy dispute is probable over two points: (1) composition of the committee, and (2) terms of reference (i.e., powers and duties) of the committee. Of the two procedural issues, the first will cause more debate. The General Assembly must decide such matters as whether the committee should be large or sufficiently small and compact to travel and gather testimony; and whether it should include "interested" parties or merely "neutral" members.

The length and effectiveness of the session will be directly influenced by the strategy of the two groups mainly interested: the Arab States, which have five official votes in the UN; and the Jewish organiza-

**TOP SECRET**

TOP SECRET

tions, which have no representation in the UN, but can bring strong pressure to bear on many of the delegations. The proposal by the Arab States for Palestine's independence, with consequent cessation of further Jewish immigration, is based on their feeling that further study of the Palestine issue is pointless and that action is required. Arab propaganda in support of this view will be less effective than Jewish counter-propaganda because of the Arab's relative lack of organization, funds, and a sympathetic audience. Though the Arabs could withdraw from the UN discussions if their proposals are not considered, it is more likely that their next step would be to seek representation on the special committee, which would give them an advantage over the Jews. Should the Arabs fail to achieve their aims in the UN, they may attempt action independent of the UN such as a boycott of Anglo-American products or a cancellation of foreign oil concessions.

Through their tightly-knit and well-financed organization, the Zionists will bring strong pressure to bear on various UN delegations. Already two Jewish organizations, the Jewish Agency for Palestine and the extremist Hebrew Committee of National Liberation, have requested authorization from the UN to represent the Jewish people in the special session. Failing this, the Jewish Agency has indicated that it will demand a hearing at the regular GA session in September. In order to strengthen the Jewish position in the eventual consideration of the problem, the Zionist organizations will press for interim action authorizing increased immigration into Palestine and permitting Palestinian Jews to increase their land holdings. To this end, the Jewish Agency has already "warned in all friendliness" that the US Government will be subject to "tremendous Jewish pressure" to take a strong pro-Zionist stand.

TOP SECRET

**TOP SECRET**

**WESTERN EUROPE**

**Non-Nationalist Colonial Stand of French Communists**

French Communists apparently intend to oppose the Government's Madagascar policy, even at the risk of the fall of the Ramadier Government and their own exclusion from the Cabinet. Such a course of action will run counter to the widespread nationalist sentiment in favor of maintaining the French Empire.

During the recent debate on Indochina, the Communists nearly brought about the Government's fall by supporting the Viet Minh movement, and started a rapprochement among non-Communist political groups which, had it continued, would have isolated the French Communist Party.

The re-entry of De Gaulle into politics and the formation of his RPF (Rally of the French People), however, tended to drive the Socialists back into the Communist camp. It seems apparent that the trend again will be reversed, if the Communists continue to attack the colonial policy.

The willingness of the Communists to support the interests of World Communism by working for the independence of the French colonies -- thereby risking the loss of the greater part of the popular support and governmental influence which they have won in France since the Liberation -- can be explained only by the assumption that the policy of the Communist members of the Cabinet is dictated by Moscow. Such an assumption is supported by the recent report that Courtade (an editor of the Communist newspaper "Humanite") had returned from Moscow "very depressed" because he realized that the Kremlin's instructions to French Communists to work publicly against the Government's colonial policy would further reveal the non-nationalist character of the French Communist Party.

**TOP SECRET**

TOP SECRET

EASTERN EUROPE

The Greek Labor Problem

Since liberation, the political struggle between Communists and anti-Communists in Greek labor has relegated the normal concern of labor with wages and working conditions to a place of secondary importance, and has fostered the growth of two active, rival executives in the national General Confederation of Trade Unions (GCTU), both claiming leadership of the Confederation. Labor has naturally suffered, to the concern of the World Federation of Trade Unions (WFTU), and of the British and Greek governments, all of which have proposed solutions. The most recent plan for reconciliation is the Braine-Tsaldaris Agreement, submitted by British labor expert Braine and backed by the British government. The US is opposed to the plan on the ground that it would give the Communists effective control of the GCTU.

The background of the dispute is complicated. After liberation, both the Communist and the anti-Communist elements attempted to secure control of the GCTU executive; by doubtful moves and elections, the Communist faction won and was recognized by the WFTU. The anti-Communists, however, appealed the legality of the elections to the Greek Council of State, which upheld their appeal. The Minister of Labor accordingly "deposed" the Communist "elected" executive and appointed a provisional executive. This executive was recognized by the International Labor Organization (ILO) and the American Federation of Labor (AF of L), but the Communist executive refused to be deposed, and both attempted to manage the GCTU. In March 1947, the Greek Supreme Court upheld the Minister of Labor's decision deposing the one executive but annulled his appointment of the other. The impasse was thus complete.

Under the Braine-Tsaldaris proposal, new appointments and electoral procedures would result in a Communist-dominated executive in the GCTU. The US opposes implementation of the plan because: (1) it would strengthen the Communist position in Greece; (2) Communist-dominated unions working for political ends would endanger still further the precarious economic situation in Greece; and (3) following traditional Communist tactics, the unions could seriously prejudice the application of US aid to Greek recovery. The British Government, on the other hand, is pressing for implementation of the plan because of strong pressure on Prime Minister Bevin from the British Trade Union Congress (TUC) and from left-wing elements within the British Labor Party. Bevin, indeed,

TOP SECRET

**TOP SECRET**

is so committed to the plan that he could not now withdraw without seriously compromising his position vis-a-vis the Labor Party and the TUC, and without risking renewed charges of acting as a US stooge.

- 6 -

**TOP SECRET**

TOP SECRET

NEAR EAST-AFRICA

Possible Effect of Jinnah's Retirement

Reports that Jinnah, leader of the Moslem League, is failing physically and mentally suggest that he may soon retire from Indian politics. His withdrawal, however, is not expected to affect Indian political developments materially, despite the absence of a comparable successor and the improbability that any other League leader will emerge with the same capacity to influence Moslem masses throughout India. The present strength of the League and the growth of the ideal of Pakistan can be attributed predominantly to Jinnah's personal power and persistence. So successful, indeed, has been his emphasis on the need for Pakistan and so intense has become the emotional reaction of the Moslem masses to that appeal, that the presence or absence of any particular leader probably would not now appreciably affect the separatist movement in India.

There is a danger, however, that Jinnah, fearing the imminence of death, may endeavor to increase still further the momentum of the Pakistan movement, and in so doing precipitate an armed clash between League and anti-League members which would result in widespread bloodshed. If, on the other hand, he is willing to let the movement follow its own course, the Congress Party (which is daily growing more accustomed to the possibility of a divided India) may avoid taking any action by force and conclude that the impracticability of Pakistan can best be proved through trial.

TOP SECRET

TOP SECRET

FAR EAST

Possibility of French-Vietnam Negotiations

Present conditions in French Indochina suggest a resumption of French-Vietnam negotiations to settle the major issues which led to the hostilities of the past four months. The destructive guerrilla warfare in Cochin China, the rising cost and commitment of manpower in the hostilities in Indochina, and consequent progressive weakening of France's military power in Europe and in its other colonies, all suggest that the French would welcome an armistice. Numerous indications of declining morale, a growing ammunition shortage, and the disruption of normal economic life in Vietnam territory make further resistance increasingly disadvantageous for Vietnam.

The major current issues between France and Vietnam center about the status of Vietnam within the French Union and the future position of Cochin China. Before these issues can be discussed, France and Vietnam must agree on a plenipotentiary who will be acceptable to the former as representative of the people of Vietnam. Until now, this has been a major obstacle to even an informal French-Vietnam rapprochement. Rumors of secret preliminary talks persist despite repeated denials by both French and Vietnam authorities. Contact could be effected between France and Vietnam through one of several potential intermediaries: the former Emperor of Annam, his Empress, or the President of the Cochin China Provisional Government. In addition, Annamite groups sympathetic to the Kuomintang in China have volunteered to form a government, including moderate members of the Vietnam Government, with which the French could negotiate. If they have not already done so, the French are expected to take advantage of these opportunities in the near future in an effort to extricate themselves from an increasingly unprofitable campaign.

Reduction of Soviet Troop Strength in North Korea

Since the beginning of April, when Lieutenant General G. P. Korotkov replaced Guard Colonel I. M. Chistiakov as Commander of the Soviet Forces in Korea, indications have been accumulating of a sizeable reduction in Soviet occupation forces in Korea, north of the 38th parallel. General Chistiakov had command of the Soviet 25th Army, but his successor is addressed only as Commanding General, Soviet Forces in Korea.

TOP SECRET

TOP SECRET

This change of title may signify that the 25th Army has been replaced by a unit of corps size. Reports from North Korea during February and March indicated that Soviet troops in that region were being demobilized and shipped out. The US Political Adviser in Korea also has reported that the reduction of Soviet forces continued during March and that Soviet military strength in North Korea may now be no greater than the US strength in the South (about 50,000 men). Whether or not the Soviet forces have actually been cut down to this level, it is certain that substantial reductions have taken place and that Soviet effectives in Korea at present number no more than 100,000 as against a previous total of approximately 150,000.

Although the USSR has been carrying out the fifth phase of its Demobilization Plan during this period, these reductions appear to be attributable primarily to political and economic considerations. Recent reports of an increasing scarcity of food in North Korea have been accompanied by a renewal of migration into the US Zone. The recent threat of the People's Committee in North Korea to shut off the supply of electricity to the US Zone unless payment is promptly made for substantial past deliveries of power -- either in cash, food, or electrical equipment -- also reflects the urgency of the economic situation in the north. While currency circulation and price levels have been stabilized and are even declining in South Korea, mounting inflation and increasing scarcity reveal the existence of a real crisis in the Soviet Zone. Inasmuch as the Soviet forces in Korea and in other occupied areas live off the land, a reduction of Soviet troop strength is probably dictated by necessity, as well as by policy.

Inflation Threatens Chiang Kai-shek's Military Efforts

Faced with the threat of an unprecedented inflation in China, Chiang Kai-shek is now contemplating a new and formal request to the US Government for financial assistance. On three separate occasions within the past two weeks, the urgency of China's need for outside aid has been emphasized to US officials in China by high Central Government authorities. The deep concern shown by Chiang and his representatives probably arises from their realization that an explosive inflation might lead to a complete collapse of China's national currency which would

TOP SECRET

**TOP SECRET**

paralyze Nationalist military efforts to achieve a speedy, decisive suppression of the Chinese Communists.

Prospects of a runaway inflation can be detected in the record rise in China's national budgetary deficit during March -- the direct result of intensified military operations that began early in that month. The deficit, mainly financed by the inflationary issue of new currency, had risen from CN\$ 266 billion for the month of January 1946 to a monthly average of CN\$ 679 billion for January and February 1947; but in March it nearly doubled, reaching a new peak of CN\$ 1,166 billion. The amount of currency in circulation correspondingly increased to reach a new high of CN\$ 5,698 billion on 31 March, approximately six times the late 1945 level. Moreover, it is likely that, without outside aid, the deflationary effect of the net inflow of goods and resources from abroad in 1947 and of official sales of gold to the Chinese public will be of even less magnitude than last year.

With little prospect for an increasing volume of goods and resources offered to the public, there is a strong probability that the recent sharp deterioration in the Government's fiscal position will soon exert an overwhelming inflationary pressure on China's highly unstable price structure. (Commodity prices and exchange rates in Shanghai already have broken through official control levels, despite police enforcement.) Once the inflationary spiral gathers headway, public lack of confidence in the Government and its currency can be expected to multiply -- many times more than it did last year -- the inflationary impact of budgetary deficits on China's economy.

The real danger, as Chiang Kai-shek undoubtedly realizes, is that runaway inflation may quickly reach a point where China's national currency loses all usefulness as a medium of exchange, and hence as an instrument of governmental policy. Such a currency collapse could produce a political crisis of the first magnitude, as currency has traditionally been a major means whereby the Government has preserved authority over its military and civil components. Of even more immediate significance, currency collapse (and the wholesale flight into commodities and real assets that would accompany it) would deprive Chiang and his Government of the means of giving adequate financial or material support to Nationalist military forces now in the field.

**TOP SECRET**

**TOP SECRET**

Chiang Kai-shek, therefore, faces the alternatives of adopting a policy of immediate large-scale military retrenchment in order to eliminate the major factor behind inflation, or of inviting a hyper-inflationary wave that will ultimately force military retrenchment upon him. It is believed that Chiang seeks to avoid these alternatives by a plea for immediate and substantial assistance from the US.

**TOP SECRET**

38

1547

TOP SECRET

44

## CONTENTS

	Pages
TRENDS IN BRIEF .....	i - iv
<b>GENERAL</b>	
Reactions to Wallace's Speeches in the UK .....	1
<b>WESTERN EUROPE</b>	
Soviet Interference in Berlin's Government .....	3
Effect of De Gaulle's Re-entry into Politics .....	4
"Moroccan Renaissance" Embarrasses France .....	5
<b>EASTERN EUROPE</b>	
Soviet Reaction to VOICE OF AMERICA.....	6
Soviet Industry Falls Short of Goals in First Quarter .....	6
Soviet Military Activity in Black Sea Area .....	7
Economic Collapse Strengthens Communist Control in Rumania .....	8
The Yugoslav Economy.....	9
<b>FAR EAST</b>	
Replacement of Damrong Cabinet in Siam Expected .....	11
The Visit of the WFTU to Japan and Korea .....	12
<b>THE AMERICAS</b>	
The Paraguayan Revolt .....	13
Anti-Communist Trend in Latin America .....	15

Document No. 44  
 NO CHANGE in Class.   
 DECLASSIFIED  
 Class. CHANGED TO: TS S C  
 DDA Memo, 4 Apr 77  
 Auth: DDA REG. 77/1763  
 Date: 2/1/78 By: DB

TOP SECRET

TOP SECRET

TRENDS IN BRIEF

GENERAL

Preliminary reactions abroad to Wallace's speeches in the UK suggest that they will provide ammunition for anti-US groups in the immediate future, but ultimately will not have any substantial effect (page 1).

WESTERN EUROPE

The anti-Communist SPD Berlin government has indicated that it will resist further arbitrary interference by the Soviet Military Authority (page 3).

The immediate effect of De Gaulle's re-entry into politics has been to disrupt the growing anti-Communist coalition and to strengthen the position of the Communists (page 4).

The Sultan of Morocco's plea for reforms, in his recent Tangier speech, has made him a rallying point for nationalist groups in French and Spanish Morocco (page 5).

The 20 April elections in Sicily for the regional assembly are expected to stimulate discussion for regional autonomy in other parts of Italy (Sardinia, Calabria, and possibly northeastern Italy). The strength of the Sicilian Separatist movement compelled the Italian government to approve for Sicily the first autonomous regional assembly in recent Italian history. If regional autonomy in Sicily proves successful, agitation for a similar status elsewhere may achieve considerable momentum. The opposition to Federalization in Italy (as in Germany) has been led by the Communists, who believe that a strong central government is more susceptible to Communist domination. Although a strong central government is also the ultimate objective of the rightist parties in Italy, regional rightist elements may support, as a matter of expediency, similar movements for semi-independence in other areas. Their purpose in so doing will be to forestall Communist penetration and to insulate these areas against radical measures which may be imposed as a result of Communist influence in the central government.

TOP SECRET

TOP SECRET

Despite the stringent fiscal position of the Italian Government, and consequent rumors of changes in the Cabinet, it seems likely that the 14-point anti-inflation program proposed by Premier De Gasperi will delay a political crisis at least until the fall elections. While the program (some parts of which have already been approved by the Council of Ministers) is not expected to effect a basic solution of Italy's financial problem, it is at least a step in the direction of controlling inflation and putting Italy's economic house in order.

#### EASTERN EUROPE

The violent attack of the Soviet propaganda machine on the State Department's Russian-language broadcasts may, in reaching certain intellectual groups within the USSR, react to increase the effectiveness of these programs (page 6).

An official Soviet report indicates that 16 of 30 industrial ministries in the USSR failed to achieve their quotas for the first quarter of 1947 (page 6).

Current Soviet military activity in the Black Sea area is probably designed to maintain military efficiency and to increase psychological pressure on Turkey and Greece (page 7).

A Communist-sponsored inflation and economic crisis in Rumania is expected to result in attainment by the Communists of their principal objectives (page 8).

The cessation of UNRRA supplies to Yugoslavia may seriously strain the country's economy but is not expected to cause the overthrow of the Tito regime (page 9).

A threat by Cardinal Mindszenty, Primate of Hungary, to excommunicate all deputies who vote for the substitution of optional for compulsory religious education will either force the Smallholders' Party to break its inter-party agreement to support the bill or accomplish what the Communists have thus far failed to do, -- split the Smallholders' Party wide open. Thus, if Mindszenty carries through his threat, the Communists will probably use this issue to provoke a fresh political crisis in the hope of forcing new elections before the withdrawal of Soviet troops.

TOP SECRET

TOP SECRET

In an attempt to break the three-party deadlock in Finland following the resignation of the Pekkala Cabinet, President Paasikivi has asked Sakari Tuomioja-- member of the small, center Progressive Party and President of the state-owned National Bank-- to form a new Cabinet. The current crisis was caused by the desire of the Right and Center parties to use the conflict over stabilization of wages and prices as a means of reducing Communist influence in domestic affairs. Communist opposition, however, may prevent Tuomioja from forming a new Government. It is also unlikely that the Moderates, fearing Soviet economic reprisals, will insist on a cabinet which will seriously lessen Communist influence.

#### NEAR EAST-AFRICA

A treaty of "Brotherhood and Alliance" between Iraq and Transjordan was signed on 14 April. The terms of the treaty have not yet been revealed but are described by the Iraqi Foreign Minister as "fully in accord with the Arab League pact" and designed only to strengthen Iraq's bonds with the other Arab states. Nevertheless, the new treaty is certain to cause apprehension on the part of the Syrian and Saudi Arabian governments as a further step toward Iraqi-Transjordan union and implementation of the Greater Syria plan.

#### FAR EAST

Continued and intensified dissatisfaction with the Siamese Government may cause political leader Pridi to replace Premier Damrong with General Adul, Army Commander, and set up a new Cabinet when Parliament reconvenes on 10 May (page 11).

The recent visit to Korea of a delegation of the World Federation of Trade Unions will probably result in attacks by international labor organizations upon US occupation policies in that area (page 12).

Fear that the US might seek bases in China, as a condition for extending economic or military assistance, appears to be the motive behind inquiries recently made by Chinese military and naval attaches in Rome. Under instructions from Nanking, these attaches have asked their US opposite numbers whether the US is negotiating with the Greek Government for US bases in Corfu and Crete.

TOP SECRET

TOP SECRET

THE AMERICAS

The Morinigo dictatorship is not expected to survive the crisis in Paraguay (page 13).

An anti-Communist trend in three Latin American countries is indicated by the recent actions of Cuba, Chile, and Brazil to curb Communist influence (page 15).

The Venezuelan Government has apparently forestalled a revolt, reportedly planned for 15 April by adherents of former president Lopez Contreras. Acting under extraordinary powers granted for this specific purpose by the Constituent Assembly, it has placed under arrest some 325 persons who, in the Government's view, might have precipitated the revolt.

TOP SECRET

TOP SECRET

## GENERAL

Reactions to Wallace's Speeches in the UK

Whatever Wallace's purposes may be in conducting a speaking tour in Europe, the principal immediate effect is to provide reinforcement and ammunition for those Left-wing political groups abroad which are critical of US foreign policy or are pro-Soviet in orientation. Wallace's statements have also encouraged the impression abroad that a considerable proportion of the US public does not support the current policy of the Truman Administration. At this point, however, it appears unlikely that Wallace's specious arguments will ultimately have any substantial effect, though his distortions of US policy will be exploited by anti-US elements to discredit the US and harass their own governments.

In the UK, Wallace has probably confused popular thinking, rather than caused mass conversions to the views of the anti-Bevin Leftists. It seems clear, however, that Wallace's utterances have somewhat strengthened Labor's rebellious Left-wing (which invited Wallace to visit the UK) and, to a similar extent, have jeopardized the Government's foreign policy. The Conservative and Liberal press for the most part have been critical of Wallace. The UK Government, however, is dependent upon the support of some 12,000,000 Laborites. A substantial portion of the latter have welcomed Wallace as the anti-reactionary, pro-Labor inheritor of the New Deal; they are particularly receptive to Wallace's urgings that the UK adopt a "middle ground" and seek "understanding" with the USSR, and they fear that current US "toughness" will lead to war (in which the UK would be the first and major victim). On the other hand, the British people are politically mature and not easily led by demagoguery. Wallace's particular target -- aid to Greece and Turkey -- has until now been a responsibility of the British themselves. Furthermore, there may be an unfavorable reaction to his "unsportsmanlike" attacks on the US in a foreign country.

Nevertheless, the Left-wing has made some gains. (Canadian officials, impressed by the attention given Wallace by the British, view his appeals to the people as "important".) These gains may be temporary, for the UK Government will surely make considerable effort to counter what amounts to an attack on Bevin and Attlee, but the dissident Laborite group will continue to exploit Wallace's support in order to win and retain new adherents. Wallace's statements may represent the

TOP SECRET

TOP SECRET

first step of a renewed campaign by the "rebels" to alter the UK foreign policy.

Elsewhere, the most significant preliminary reactions to Wallace's speeches have been in France, Sweden, and Italy. Only the Communist Party newspaper in Paris has directly reported Wallace's UK speeches, although other papers have reported US comments. A high French official (a member of Bidault's Party) has stated privately that the Government (presumably excluding Communist members) is distressed at the forthcoming Wallace visit, and that no official entertainment or favors would be proffered. In Stockholm it has been "intimated" that possibly only two or three Cabinet members will be free to attend either of the two functions planned for Wallace. Although local groups originally intended to invite all Government Ministers, Chiefs of Missions, and members of the US Legation to his speech, officials prevailed informally on the hosts to restrict the functions. (Wallace apparently was invited to Sweden by a warm friend of the USSR.) In both capitals, however, the promulgation of the Wallace views will provide potent ammunition for anti-US elements.

This is likewise true in Italy, where pro-US liberal elements have been losing ground for some time. The press has given wide and continuous coverage to Wallace's speeches. Only the leftist press has supported Wallace's position, but it has reportedly made particular capital of the impression created by Wallace that US policy toward Greece and Turkey has a serious opposition at home (and hence cannot be firmly implemented in the Eastern Mediterranean).

TOP SECRET

TOP SECRET

WESTERN EUROPE

Soviet Interference in Berlin's Government

The record of the USSR's repressive actions against the city government of Berlin demonstrates again that any central administration of Germany will fail unless the basic agreements are drawn so clearly that the USSR cannot readily make unilateral interpretations. By arbitrary interpretation of the Kommandatura agreements, the USSR was able to frustrate and delay the Social Democratic Party (SPD) in its attempt to set up a municipal government. Although the SPD had won the October elections, the Soviet Military Authority sought to prevent the SPD from replacing Communist officials in the government with their own appointees. After long, and frequently angry, discussions on the Kommandatura level, the new Assembly was able to appoint only the top officials.

The position of the new government has been almost intolerable from the beginning. Of approximately 80 laws passed by the Assembly, all but 3 were either vetoed or delayed by the Soviet Authority which has arbitrarily assumed a veto power. Operating on a lower level, the USSR employed the Socialist Unity Party (SED) within the government to nullify Social Democratic action whenever possible. The continued presence in the civil service of the SED, the Communist-led Free German Trade Union, and other organizations directed by the USSR, has made the government's control of the bureaucracy less than nominal.

The situation is now reaching a climax. The victorious SPD has for some time been of the opinion that the SPD Lord Mayor has been indecisive or too conciliatory in his dealing with the Soviets. With the support of other non-Communist parties in the City Assembly, the SPD recently obtained a vote of non-confidence against the Lord Mayor. This is probably a prelude to replacing the present incumbent with a more vigorous anti-Communist. If the Soviet Authority rejects this new candidate, it is likely that all non-Communist parties will refuse to participate further in the Berlin government until the Soviet occupation officials have clearly accepted the principle of self-government for the Berlin administration.

The pattern of these developments clearly indicates that if the Soviets are forced to make concessions on high levels they will con-

TOP SECRET

TOP SECRET

tinue to exert the same obstructionist tactics on the lower levels of government, thus making it extremely difficult, if not impossible, for an elected non-Communist government to operate effectively,

Effect of De Gaulle's Re-entry into Politics

Upon assuming leadership on 14 April of the Rally of the French People (RPF), General Charles de Gaulle emphatically stated that the RPF is not just another political party. His intention is to create a "non-political" organization to which members of the various parties can adhere in the name of national unity without prejudice to their party membership. His appeal is addressed to those weary of party factionalism, to the anti-Communists, and to those who feel that the De Gaulle "mystique" will bring order, authority, and unity to France. The RPF is intended to serve as a vehicle by which De Gaulle may be carried to power in the event of a governmental crisis. Such a crisis the General confidently expects within the year. If the RPF obtains a sufficient following, De Gaulle will very likely convert it into a political party and will declare that the movement constitutes a mandate from the people to assume the leadership of France.

The balance of forces in the French political structure is so delicate that De Gaulle's intrusion upon the scene has affected every group. While every political party in France has reason to resent De Gaulle's declared scorn of "existing parties", the anti-Communist parties are particularly disturbed by his action. These anti-Communist forces have been drawing together within the framework of their respective party affiliations and feel that De Gaulle has blundered upon the scene just as they were about to effect the isolation of the Communists. The Communists are placing themselves before the people as the true defenders of the democratic process and the Constitution against the arch-enemy De Gaulle, and thus may win over the anti-De Gaulle Socialist Party which has been steadily drawing away from its Communist affiliations. The immediate effect, therefore, of De Gaulle's re-entry into politics has been to disrupt the growing anti-Communist coalition and to strengthen the position of the Communists.

TOP SECRET

TOP SECRET

"Moroccan Renaissance" Embarrasses France

In apparent anticipation of an eventual elimination of French rule in North Africa, the Sultan of Morocco called for a "Moroccan renaissance" during his recent visit to Tangier. While none of the Sultan's statements could be regarded as inflammatory, his plea for reforms has made him a rallying point for previously disunited nationalist groups in French and Spanish Morocco.

Should native extremists now be encouraged to take overt action, compelling the French to institute repressive measures, serious outbreaks might spread throughout the area. If the French should seek to restrain the Sultan or refuse to consider his reform proposals, even responsible nationalist leaders may decide to change their tactics; they may abandon their hope of obtaining French acquiescence to autonomy and may create disturbances in order to force UN consideration of their cause.

The seriousness with which the French regard the situation is indicated by the fact that they have instructed the Resident General of Morocco to ask the Sultan for explanations of his Tangier speech. The French are particularly displeased by the Sultan's hint that he might aspire to "some sort of Caliphate."

TOP SECRET

EASTERN EUROPE

Soviet Reaction to VOICE OF AMERICA

The Soviet propaganda machine has reacted violently to the Russian-language broadcasts from the US. The selection of the popular and authoritative Ilya Ehrenburg to lead the attack is, in itself, significant. Writing in the current issue of CULTURE AND LIFE, Ehrenburg describes the American programs as a mixture of "jazz culture" and a "holy crusade" against Communism. It is fortunate, he observes, that Goering and Goebbels have committed suicide as, otherwise, they might demand copyright privileges.

The attack has been made in spite of the obvious risk of advertising the program and is in marked contrast to the official silence regarding the much older, and more restrained, BBC Russian-language broadcasts. Such gratuitous publicity is especially surprising because the VOICE OF AMERICA audience is composed of a relatively small, privileged group who own private receivers.

The explanation of the Soviet reaction probably lies in the fact that these listeners, although numerically small, occupy a particularly influential position in the Soviet caste system and are especially susceptible to Western ideas. The recent "purification" of the intelligentsia revealed the concern of the Kremlin regarding the ideological loyalty of this group. Information reaching this element is undoubtedly soon transmitted to other strata of Soviet society which, because of admiration for and curiosity about the US, are sure to grasp at any scraps of forbidden American fruit. In all probability, therefore, the Ehrenburg article will only serve to increase the effectiveness of the programs from the US.

Soviet Industry Falls Short of Goals in First Quarter

The report of Gosplan (State Planning Commission) on the progress of the Soviet industrial plan for the first quarter of 1947 indicates that, while there has been general improvement over the corresponding period of 1946, failure to achieve quotas has occurred in 16 out of 30 industrial ministries. The most critical of such industrial failures are in ferrous metallurgy, coal, heavy machinery, and

TOP SECRET

TOP SECRET

building construction. Particularly surprising is the deficiency in agricultural machinery output, which has been the subject of special attention by Kremlin economists. Transportation continues a serious bottleneck. Light industry and consumer-goods production, however, have shown marked improvement. (Paradoxically, this has been of little benefit to the Soviet consumer, because excessive food prices and increased taxation have seriously curtailed his purchasing power.) It appears, therefore, that while economic recovery is under way, the achievement of 1947 goals is by no means assured.

Soviet Military Activity in Black Sea Area

Despite recent reports of (1) the assignment of top Soviet military commanders to the North Caucasus and Trans-Caucasus Military Districts, (2) a staff conference on 25 March at Odessa presided over by Zhukov, and (3) increased training activity in the Black Sea Military Districts, there appears to have been no abnormal departure from Soviet military policy in this area.

The latest estimates for the four Black Sea Military Districts and the Southern Group of Forces (in Bulgaria and Rumania) total 820,000. This figure is consistent with the Kremlin practice of maintaining border forces equal or superior to those of any conceivable combination of opponents (combined Turkish, Greek, and Iranian forces now total 672,000). Estimated Soviet strength in Rumania has decreased recently from 200,000 to 130,000.

The Soviet forces in these areas are believed to be in a state of high combat efficiency and are expected to engage in extensive spring maneuvers. It is extremely unlikely that such maneuvers foreshadow early offensive action by the USSR; they are probably designed to maintain the efficiency of the participating units and to increase the psychological pressure on Turkey and Greece.

TOP SECRET

TOP SECRET

Economic Collapse Strengthens Communist Control in Rumania

The achievement of the Communists' goal in Rumania -- nationalization of industry and complete control over all phases of the nation's economy -- appears imminent. Currency inflation has been suddenly accelerated (the open market exchange rate on 15 April was 1,300,000 lei to the dollar) and Parliament has passed legislation granting the Communist-controlled Ministry of National Economy the power to control the allocation of raw materials and credits, to supervise manufacturing operations, and to regulate prices, salaries, profits, and public and private investments. Under these conditions, private industry cannot survive and early nationalization will be the only alternative.

The present economic crisis, including the inflation, has been deliberately planned by the Communists. It is, in fact, merely the culmination of their long-range plan to take over the country. The pattern of that plan is now clear in most of its details and affords a valuable insight into Communist tactics.

The Communists first obtained control of the Police, the Army, and the Ministries of National Economy, Information, and Justice; they were then able by late 1946 to eliminate important opposition elements -- through arrests and faked trials -- and to rig the November elections in their favor. A period of consolidation followed the elections, during which the economic situation was allowed to deteriorate with increasing rapidity, and the Rumanian National Bank was nationalized. By March 1947, any potential overt opposition was silenced by another series of mass arrests. In the meantime, the Communists took no effective steps to check the mounting inflation, and on 1 April 1947 they actually gave it additional impetus by forcing through Parliament a bill which increased wages and prices tenfold. Private business (particularly foreign-owned) -- faced with the National Bank's discriminatory credit policy, skyrocketing labor costs, unprofitable reparations deliveries to the USSR, and lack of equipment -- has thus been brought to its knees.

Demoralization of Rumania's Opposition is so complete that no force or group seems capable at this time of offering effective resistance to the Communists. In addition to the efficient Communist-controlled Rumanian secret police, the USSR is reliably reported to be organizing an elaborate MGB (Ministry of State Security) control system, composed of Soviet civilians domiciled in Rumania, which will cooperate with the Rumanian Police and the Army after the withdrawal of Soviet occupation forces.

TOP SECRET

TOP SECRET

The Yugoslav Economy

The cessation of UNRRA supplies to Yugoslavia in June may seriously strain the Yugoslav economy. By June 1947, UNRRA will have supplied Yugoslavia with a total of \$500,000,000 in food and industrial rehabilitation equipment, which sum has been largely responsible for raising the level of the Yugoslav economy to 70% of pre-war. Maintenance of even this level in 1947 will require foreign credits estimated at \$64,000,000. Meanwhile, Tito has promised the Yugoslav people that economic prosperity will be achieved by a grandiose five-year plan for industrialization of the country far beyond pre-war levels and by the close integration of the Yugoslav economy with the economies of Eastern Europe and the USSR. To accomplish this objective, however, Tito must industrialize a predominantly agricultural economy and carry out post-war reconstruction, both of which, in turn, are primarily dependent upon the importation of machinery and industrial equipment from the West.

Many internal obstacles stand in the way of the accomplishment of this program. Agricultural products, lumber, and certain raw materials are the only exports which Yugoslavia could develop to exchange for the machinery and industrial goods needed to rehabilitate the country's economy and to implement the five-year plan. Although Yugoslavia can attain self-sufficiency in food, hoarding by peasants and the lack of farm machinery and of spare parts for the maintenance of UNRRA equipment will prevent the early accumulation of any substantial exportable surpluses. Lack of sawmills will likewise hinder the exploitation of the country's large timber resources. Lastly, a shortage of locomotives and rolling stock will seriously retard full economic recovery.

Even with substantial Western credits for the purchase of capital goods, Yugoslavia will have great difficulty meeting its five-year industrial goal. Factionalism and hatred among member republics militates against an integrated national industrial effort. There is a shortage of skilled labor and management personnel, caused by war losses and by Communist purges. Conversion of Yugoslavia's predominantly peasant population into an effective labor force will take many years.

In an effort to obtain essential imports, the Tito regime has signed many trade agreements, chiefly with the USSR and its European

TOP SECRET

TOP SECRET

satellites. These agreements, however, will provide Yugoslavia with only a fraction of the goods needed for the five-year plan and with virtually no foreign exchange that can be used for purchases from the West.

The USSR, although vitally interested in developing Yugoslavia as a show window to display the advantages of a Communist state, is unable at this time to offer substantial economic aid and will help -- possibly with a gold loan or limited quantities of sawmills -- only in the unlikely eventuality of a threatened collapse of the Tito regime.

Although the Yugoslav economy will thus show little improvement for a number of years, economic difficulties are not expected to cause the overthrow of the present Government. Tito, with the backing of a large army and an elaborate police force (which are themselves an additional burden on the economy), will be able to retain power despite the country's low standard of living. He may, nevertheless, be expected to intensify his quest for Western aid in order to solve his difficulties, provided such aid can be had without important political concessions.

TOP SECRET

TOP SECRET

FAR EAST

Replacement of Damrong Cabinet in Siam Expected

Because of the failure of the Damrong Government to alleviate such pressing economic problems as inflation, continuing shortages of consumer goods and of materials needed for the rehabilitation of Siam's economy, it was expected that the Government would be replaced upon Pridi's return from a world tour late in February. At that time Pridi took no action, but it is now believed that a new Cabinet will be appointed when Parliament reconvenes on 10 May. Dissatisfaction with the Damrong Government has been intensified by efforts of certain Cabinet Ministers and government officials to augment their official incomes by black-market activities.

In an effort to replace the Damrong Cabinet (a coalition of two parties under the background leadership of Pridi), the opposition Democratic Party leader, Abhaiwong, assured the wartime Premier, Phibul, of parliamentary support by his party. Capitalizing on popular discontent with the Damrong Government, Phibul announced, at the end of March, that he intended to re-enter politics. Because of Phibul's wartime record and ultra-nationalism, however, British and US representatives in Bangkok unofficially expressed great concern over Phibul's announcement. These unofficial statements, the opposition of the incumbent government, and the firm control of the Army by its pro-Pridi Commander-in-Chief, General Adul, apparently were sufficient to discourage Phibul's ambitions.

In order to counter the possibility of a future attempt by Phibul to return to power in league with Abhaiwong's opposition group, Pridi is believed to be considering Adul as a successor to the present Prime Minister, Damrong. Certain difficulties stand in the way of this plan. Adul is not a member of Parliament; hence, the present Parliament must be dissolved and new elections held in order to make Adul eligible for the Premiership. Despite its complications, this procedure may be attempted by Pridi to provide a strong figure, capable of opposing Phibul, to head a Cabinet selected from Pridi's coalition parties. Adul's background as wartime police commander and his present control of the Army suggest that a government under his leadership might have strong authoritarian tendencies.

TOP SECRET

TOP SECRET

The Visit of the WFTU to Japan and Korea

The delegation of the World Federation of Trade Unions which recently visited Japan and Korea under the leadership of the French Secretary General of the Federation, Louis Saillant (a fellow traveller, if not a Communist Party member), has now left the Far East and proposes to publish a report of its findings at the beginning of June. The WFTU's visit to Japan was uneventful in contrast to its visit to Korea.

Saillant arrived in Seoul, Korea, on 30 March, after having spent nine days in Japan. He was accompanied by three other delegates representing the US, the USSR, and the UK. Saillant, who also represented France, took command of the proceedings, although the American delegate, Willard Townsend, was supposedly chairman of the group. According to the US Economic Adviser in South Korea, the WFTU delegation appeared to be more concerned with establishing contact with leftist trade union leadership than with investigating labor conditions in South Korea.

During their two-day visit to the US Zone, the delegation made a considerable display of mistrust and hostility toward the Military Government. Ignoring the official program of conferences and inspections, the delegates visited leftist leaders in their homes, in company with the Soviet Liaison Officer in Seoul and a Communist interpreter who had previously joined the group on his own initiative.

The WFTU delegates subsequently left for the Soviet Zone, from which they returned with sharply contradictory reports. The French and Soviet delegates seem to have been favorably impressed by labor conditions under the Soviets, which the US and British delegates later described as oppressive. Throughout the group's visit to North and South Korea, the US and British delegates seemed to be unwilling participants in activities which they could not control. The French and Soviet delegates were well-informed about the leftist movement in South Korea, while the South Korean leftists, in turn, possessed many facts about the WFTU unknown to the US authorities. Saillant himself is a familiar figure to South Korean leftists, and has, along with Stalin, been elected "honorary chairmen" of various People's Front organizations. As a result of this visit of the WFTU, attacks will probably be launched in international labor circles against US occupation policies in Korea.

TOP SECRET

TOP SECRET

THE AMERICAS

The Paraguayan Revolt

Although the military situation in Paraguay remains obscure (in part because of interrupted communications between Asuncion and the territory occupied by the rebels), the weight of the evidence suggests that the Morinigo dictatorship will not survive the present crisis.

Several recent Morinigo demarches would, in the absence of this evidence, seem to indicate that the Government feels genuine confidence regarding its ability to put down the five-week-old rebellion. The Government has turned a deaf ear to mediation offers from outside. It has revoked the decree in which it had recognized the existence of a "state of war" with the rebels. It has directed the attention of foreign military observers to "preparations" for a large-scale offensive against the rebel stronghold in Concepcion. It has named a date by which it will have brought the rebels to heel.

The facts of the situation, however, point in a quite different direction. Morinigo has, at no time, had any reason to suppose that mediation from outside Paraguay would restore the pre-rebellion status quo, or that he could accept mediation without having the charge substantiated that his government no longer represents the true balance of political forces within the country. The "state of war" decree had, for various reasons, proved actually beneficial to the rebels. Rapidly worsening economic conditions in Asuncion (where prices are sky-rocketing and numerous articles of everyday use are already unobtainable), reduce the possibility of adequate preparations for a large-scale offensive across difficult terrain. Finally, because of growing unrest and disintegration within the territory it nominally controls, the Government needs to use an increasing proportion of effectives for police duties.

The conclusions that emerge from the welter of rumors, conflicting reports, charges, and counter-charges in Paraguay are: (1) the Government after five weeks can point to no single military success against the rebels; (2) its hold on Asuncion itself is so uneasy that it has seen fit to establish eight troop concentrations at strategic locations around the city for rapid movement to the scene of any disturbance;

TOP SECRET

**TOP SECRET**

and (3) the mere maintenance of a stalemate along a largely inactive "front" cannot, as time passes, redound to Morinigo's political advantage (recent reports indicate, indeed, that the rebels, recognizing this, are avoiding battle). Popular discontent reportedly is being fanned by wheat and gasoline shortages, numerous arrests, interruption of river transport services and the curfew. There is, moreover, convincing evidence of potential disloyalty to Morinigo within the armed forces themselves (the most conspicuous example is the Commander-in-Chief, Colonel Smith, who has told the US Military Attaché that some of the rebels are "honorable officers" and that the revolt is "understandable").

The political situation -- in Asuncion itself, throughout the countryside, and among Paraguayan exiles and refugees in neighboring countries -- is hardly less confused than the military situation. The chief political result of the rebellion to date has been to force Morinigo, who in the past had avoided affiliation with any specific political grouping, into the arms of the so-called Colorado party (which has for some time been a part of the coalition government). Some prominent Colorados, however, would welcome a solution that would save the regime but sacrifice Morinigo. A second large political grouping, the Liberal party, refused for some time to take sides either with the Government or with the rebellion, but is now, according to the Embassy, verbally committed to the latter. A third, the so-called Febreristas, whose leader is ex-president General Franco, is clearly the principal political support of the rebels. The Communists undoubtedly favor the rebels, but (1) there is no reason to suppose that they are sufficiently numerous to affect the result; and (2) there is, in any case, no evidence that they have played any such role of leadership in the rebellion as General Morinigo likes to attribute to them.

The talk of possible mediation, for the avowed purpose of preventing further bloodshed in Paraguay, is traceable mainly to Rio de Janeiro and to Buenos Aires. Argentina, which rarely nowadays misses an opportunity to adopt a "correct" inter-American attitude on any current question, favors multilateral mediation under existing inter-American agreements. Brazil, whose diplomatic representative in Asuncion is clearly pro-Morinigo, would apparently oppose any mediation procedure that included countries such as Uruguay and Chile, where powerful Leftist groups could bring pressure against Morinigo.

**TOP SECRET**

TOP SECRET

Without Brazilian support, the Argentine view is unlikely to prevail; and Brazil, which is thinking in terms of a mediation upon request by the Paraguayan Government, has found the latter unwilling to make the request without assurances of a settlement that would give Morinigo a complete victory.

Informed observers expect the Paraguayan problem to occupy a prominent place on the agenda of the forthcoming conference between the presidents of Argentina and Brazil.

Anti-Communist Trend in Latin America

Two Latin American countries, Cuba and Chile, have apparently abandoned their policy of lenience vis-a-vis local Communist parties, and have recently taken action that may curb growing Communist influence in the area. A third country, Brazil, appears to have determined, after several months of indecisive debate, to initiate action against the Communist Party.

In Cuba, the government postponed until further notice a nationwide congress of the Communist-dominated Confederation of Cuban Workers scheduled for 5 April, jailed several Communists in connection with the murder of an anti-Communist labor leader, and prohibited the annual May Day labor parade in Havana.

In Chile, President Gonzalez Videla on 16 April turned out of office three Communist ministers he had appointed last year in recognition of the support he had received from the Party in the presidential election (they were the only known Communists holding portfolios in Latin America).

In Brazil, President Dutra on 15 April decreed the suspension of the Communist Youth Union and directed the Attorney General to ask the courts to dissolve it.

The weight of evidence indicates that President Truman's recent speech and the stiffening of US policy with respect to Communism have been decisive factors in bringing about this sudden change in the status of the Communist Party in its three major Latin American strongholds.

TOP SECRET

38

43

TOP SECRET

AFP  
11

## CONTENTS

	Pages
TRENDS IN BRIEF .....	i - iii
<b>GENERAL</b>	
Lie's Actions Regarding Balkan Secretariat .....	1
<b>WESTERN EUROPE</b>	
Significance of the Conscription Issue in the UK .....	3
De Gaulle's Expectations of Returning to Power .....	4
Italian Communists Apparently on the Defensive.....	5
<b>EASTERN EUROPE</b>	
Soviet Propaganda Reaction to US Greek and Turkish Policies	7
Difficulties in the Greek Civil Service .....	8
<b>NEAR EAST-AFRICA</b>	
Effect of Maladministration on Iran's Security .....	10
<b>FAR EAST</b>	
Kuomintang Likely to Retain Political Control in China .....	11
US de facto Recognition of the Indonesian Republic .....	12

43

Document No. \_\_\_\_\_  
 NO CHANGE in Class.   
 DECLASSIFIED  
 Class. CHANGED TO: TS S C  
 DDA Memo, 4 Apr 77  
 Auth: DDA MSG. 77/1763  
 Date: 27/1/79 By: 073

TOP SECRET

TOP SECRET

## TRENDS IN BRIEF

### GENERAL

Lie's decision to investigate charges concerning the integrity of the Balkan Commission secretariat reflects a desire to bolster his own position rather than to determine the facts in the case (page 1).

### WESTERN EUROPE

Although anti-conscription sentiment within the Labor Party has led the UK Government to decrease the length of service required by the National Service Bill, this action probably does not constitute a precedent for further concessions to dissident Laborites. Moreover, the Government's insistence on continuing conscription indicates a determination to maintain the UK's world position (page 3).

De Gaulle has indicated his determination to return to power and expects to be called upon by the French people to save the country (page 4).

The Italian Communist Party apparently has adopted a defensive policy pending the outcome of the national elections to be held within a few months (page 5).

By authorizing the Spanish press to publish the manifesto by which Don Juan, the Pretender to the Spanish throne, repudiated the new succession law, Franco's regime displays its confidence that Don Juan lacks enough popular influence to upset the status quo. The editorials which accompanied the manifesto denounced the Monarchy for ineffectiveness in the past and praised the new law for guarding Spain "against all irresponsibility". The editorials also indicated that Franco's strategy is to claim for his regime the stabilizing character inherent in an effective monarchy while simultaneously undermining the position of the present Pretender to the throne.

### EASTERN EUROPE

Cromyko's speech before the Security Council and Tarle's lecture in Moscow indicate the official Soviet propaganda lines on US policy towards Greece and Turkey (page 7).

TOP SECRET

Unless the Greek civil service is reorganized, low morale and inefficiency will prevent effective implementation of a Greek reconstruction program (page 8).

#### NEAR EAST-AFRICA

Corruption and maladministration in Iran may result in serious disturbances which would provide an opportunity for Soviet intervention (page 10).

#### FAR EAST

A trend toward continuation of one-party rule in China is indicated by recent developments, despite progress in negotiations between the Chinese minority parties and the Central Government (page 11).

US de facto recognition of the Indonesian Republic will be extended through the Netherlands Ministry of Foreign Affairs following a Netherlands Foreign Ministry request that matters relating to the Netherlands Indies be handled through the Far Eastern Office of the Netherlands Foreign Ministry in Batavia (page 12).

#### THE AMERICAS

Preliminary returns from the 6 April elections in Chile show substantial gains for the two extremist parties, the Conservatives and the Communists, at the expense of President Gonzalez Videla's Radical Party. Although the anti-Communist parties (which had joined forces) received an estimated 65% of the votes cast, the Communists have notably increased their representation on the municipal councils, particularly in the municipalities in which US copper and nitrate interests are located. Some of these municipalities will be Communist-controlled.

Punitive dismissal of a number of Colombian petroleum workers, now contemplated by US-owned oil companies as a defensive measure against further pressure by unions, would probably provoke general strikes which would intensify the present Cabinet crisis and provide an opportunity for Gaitan, powerful leader of the left-wing Liberals, to assume control of the Government.

TOP SECRET

**TOP SECRET**

A possible first indication that inflation in Latin America may have run its course is a recent report from Embassy Mexico City pointing to a substantial drop in retail sales in Mexico over the past year. The drop has been followed by a 1.6% decline in the cost-of-living index during the month of February 1947, and by a falling off in construction activity. During recent years, volume of sales and cost-of-living have consistently increased in most of Latin America, and Mexico has been a major victim of these inflationary trends.

- iii -  
**TOP SECRET**

**TOP SECRET****GENERAL****Lie's Actions Regarding Balkan Secretariat**

The motives underlying the decision of Secretary General Lie to look into the charges against the UN Balkan Commission secretariat are susceptible of misinterpretation. At first glance, his action appears to be that of a high-minded official who is shocked to find abuses in his own official family. Actually, he is taking steps calculated to bolster his own position. Lie has evinced great sensitivity to recent charges in the press reflecting on his impartiality as well as on that of the Balkan secretariat he appointed. Recognizing that he is involved, Lie is manifesting a determination to defend the rectitude and integrity of his secretariat. He is sending his personal assistant, William H. Stoneman, to Geneva, where the Balkan Commission is now preparing its conclusions, to report on the work of the secretariat and "to try to find out the origin of all the 'rumors'." The fact that Stoneman's assignment does not include the investigation of the factual basis of the charges is consistent with Lie's announced determination to give "all possible protection" to his secretariat members.

While the sensational published story that Gustav Gottesman, Polish Assistant to Colonel Lund, head of the Balkan Commission secretariat, had attempted to enter the bedroom window of UK representative Windle seems to have been thoroughly discredited, the US delegation on the Commission has reported to the Department of State numerous instances of pro-Soviet bias on the part of the secretariat which have seriously impaired confidence in the integrity of the Commission's staff. However, following strong protests by Mark Ethridge, the conduct of the secretariat has recently been more correct.

In February when the Commission informally requested the Greek government to postpone the execution of certain leftist offenders, Gottesman deliberately predicated the request in order to make it appear that Greece, despite sufficient notice, had flouted the plea for a stay. Ryan, Colonel Lund's press representative, (who, despite his name, is a Canadian of Russian parentage) issued a false report to the effect that Ethridge had conferred with Premier Tsaldaris concerning these executions. At the time of these occurrences, Ethridge reported that Colonel Lund himself had "played down the Soviet angle," and that the secretariat had usurped powers belonging to the delegates.

**TOP SECRET**

**TOP SECRET**

While no government participating in the Commission has thus far made any representations on the subject, Lie clearly recognizes that the attacks against him and his secretariat are rising in intensity and is acting to protect his own position in anticipation of possible official repercussions.

- 2 -

**TOP SECRET**

TOP SECRET

WESTERN EUROPE

Significance of the Conscription Issue in the UK

By shortening, on its own initiative, the draft period specified in the National Service Bill (which extends the present conscription law for five years beginning 1 January 1949), the UK Government has made its first substantial concession to a rebellious minority within its Parliamentary ranks. In view of the special nature of the conscription issue, however, the Government's action should probably not be construed as a precedent for further concessions to the Laborite dissidents.

Despite a pre-debate appeal by Attlee, nearly 40% of the Parliamentary Labor Party voted against the Government on the conscription issue, abstained, or were absent from the House. The Government's position was saved by solid Conservative support. In the face of a revolt of such dimensions within its own Party, the Government apparently felt impelled to modify its position, and has reduced the active service requirement from 18 months to 12 months.

The Conscription Issue, however, is more likely than any other to mobilize in opposition a large combination of disparate Labor elements, ranging from extreme left to moderate, and including Pacifists. It would be premature, therefore, to assume that, on future questions pertaining to foreign affairs and defense, the extreme left-wing group alone will be able to exact similar concessions. This dissident group, however, whose real target is Bevin's policy, will continue to harass the Government and may gain some public and Laborite support from sections apprehensive of too full British cooperation with the developing US foreign policy.

Perhaps the principal significance of the issue is reflected in the Government's determination to push through long-term peacetime conscription, despite a tight manpower and economic situation, and deep-seated national tradition. The Attlee Government is giving notice to the world that the UK intends no wholesale abandonment of its world position.

TOP SECRET

TOP SECRET

De Gaulle's Expectations of Returning to Power

In three recent speeches, General Charles de Gaulle served notice that he is willing to resume the leadership of the nation. De Gaulle has declared privately that he expects to be called upon to extricate the nation from a serious crisis in a few months. The reception accorded his speeches indicates that the General is still a considerable force in French politics and that his reappearance in the political arena will have wide repercussions on the present party alignments in France.

This fact was heavily accented by the 300-mile motor trip that Premier Ramadier made in order to visit the General after De Gaulle severely criticized the coalition Government and the political parties in his first speech (at Bruneval on 30 March). The Premier's purpose may have been to try to convince De Gaulle that good progress is being made in eliminating Communist infiltration of the Government and that more time is needed to build up popular support for an anti-Communist movement before calling for a showdown with the Communists. It is also possible that Ramadier sought to convince the General that a premature attack might give the Communists an excuse for precipitating a crisis while they are still strong.

The second speech, which was delivered in Strasbourg on Easter Sunday, presumably was intended to convey an anti-Soviet note. In it, De Gaulle declared that France and the US would stand together if a "new tyranny" should menace the world. The third address, also delivered in Strasbourg, was to have been "the" speech, but in it the General was content to reiterate the neutrality policy which he urged on France a year ago. His contention then, as now, was that France must lead in re-organizing Europe as an "element of equilibrium" between the two expansionist rivals: the US and the USSR. The General insisted that the movement for national "renewal," which he was seeking to inspire, should take place "within the framework of the laws"; he also expressed his opposition to the extremists of the Right and Left.

De Gaulle's utterances are usually carefully calculated, and there is reason to believe that in his third speech De Gaulle departed from his original draft. It is quite possible that Ramadier's remarks induced him to adopt a milder tone; they may also account for his failure to indicate a definite course of action.

TOP SECRET

**TOP SECRET**

Although De Gaulle does not wish to precipitate a crisis, he anticipates that one is inevitable within a few months. He apparently hopes that the "Rally of the French People" -- a movement to rally to De Gaulle's cause members of all non-extremist political parties -- will become effective in the meantime and that it will, when the occasion is ripe, be instrumental in bringing him to power. His plans beyond this point appear to be nebulous and adjustable to future developments.

**Italian Communists Apparently on the Defensive**

There is strong evidence that the Italian Communist Party has adopted a defensive policy designed to maintain the status quo pending the outcome of the next national elections to be held some time before October. The Party has recently reversed its stand on a number of important issues with the apparent intention of maintaining its popular support.

During the debate on the status of Trieste, the Communist press consistently defended Yugoslav claims to the area. But rising popular protest became so insistent that the Party dropped its sponsorship of Yugoslav claims and gradually took a more "national" attitude toward Trieste in an effort to reassure the populace that Communists were good Italians.

The national congress of the CGIL (Italian General Labor Confederation) was first scheduled for March 1947. Although the CGIL is dominated by the Communist Party, the threat of a split within the organization was so serious that the Party arranged a postponement until April in order to consolidate its hold over the CGIL and, if possible, to prevent the secession of a growing number of anti-Communist members. The Party failed to obtain sufficient assurances of its ability to prevent the split and a second postponement has been arranged until 30 June, or even later.

In regard to the Catholic Church, the Party has exhibited a markedly defensive attitude. In the latter part of 1946 the Party intensified its anticlerical campaign. The Church responded to these

**TOP SECRET**

**TOP SECRET**

attacks by calling upon the faithful to demonstrate their solidarity. The resultant mass demonstrations of support for the Church were evidently not without effect, for in March 1947 the Party startled Italy by supporting the Lateran Pact which gives special status to the Vatican and recognizes the Roman Catholic Church as the official Church of the State. This action by the Party was in direct recognition of the immense influence of the Vatican over the people, many of whom can accept the socialism but not the anti-Catholicism of the Party. These instances of recent Communist tactics suggest that the Party's current policy is directed at maintaining its present strength and continuing to participate in the Government even at the expense of supporting a non-Party line. By playing safe, the Party may be able to capitalize on the present aggravated economic conditions and hold its own in the next national election, particularly if the extent and timeliness of Anglo-American assistance is unimpressive. In the meantime, the Center and Right are making little progress // in the direction of effective cooperation.

**TOP SECRET**

TOP SECRET

## EASTERN EUROPE

Soviet Propaganda Reaction to US Greek and Turkish Policies

Official Soviet silence regarding the President's Greek and Turkish proposals (see Weekly Summary of 28 March, page 3) has been broken by two authoritative pronouncements -- Gromyko's speech before the Security Council and a lecture in Moscow by the prominent Kremlin spokesman, Professor Tarle. Gromyko apparently established the official line for foreign consumption, while Tarle's words were aimed at Soviet ears.

Gromyko confined his remarks to themes already outlined by the President's US critics. Gromyko charged that the program undermined and ignored the UN, and he dwelt at length on the sinister implications of the provisions for military aid. Nowhere did he imply that the policy was directed against the USSR.

Professor Tarle (who has been described by a US observer as the "Soviet trained seal who is required to jump unusually high for his fish") refers to the Truman proposal as "one of the most curious and unmistakable political provocations that could be imagined." He interprets it as the logical culmination of a long series of "imperialist" and "anti-Soviet" machinations which, he claims, have been under way in the US since 1945. Among his examples, he recalls Undersecretary Acheson's reference to Soviet foreign policy as "aggressive and expanding." "Never before," says Tarle, has a nation "so insulted a power with whom it was at peace."

Despite the "aggressive" US policy, the Professor implies, the USSR is strategically secure. He quotes "American military circles" as contending that, in the event of war, the USSR would rapidly and peacefully occupy all of Europe and Manchuria; that these widely-dispersed Soviet forces would be practically invulnerable to atomic bombing; and that under such conditions "neither side will be able to come to grips with the other."

Furthermore, says Tarle, Truman is losing the support of the American people, who at last "are beginning to think things over and to realize what the end of the present policy may bring." "The American people," he concludes, "never were Nazis and never will be."

TOP SECRET

TOP SECRET

It thus appears that the Kremlin line abroad is to identify the Soviet position with that of US leftists and isolationists, while at home the Kremlin is assuring the Soviet people that, in spite of the "provocative" character of American policy, their future security is assured by the moral right of the Soviet cause and the strategic invincibility of the Soviet position.

In seeking to explain Tarle's words, it must be recalled that for months Soviet propaganda has harped on the danger of "Capitalist encirclement." The Kremlin might well have been expected, therefore, to use the Truman proposals to demonstrate to the Soviet people that the threat was imminent. It did not do so, perhaps because the USSR is not in a position to take the countermeasures which such a statement would require. Lest this failure create among the Soviet people a true impression of the USSR's present weakness, some logical explanation had to be offered. To meet this need Tarle quotes "American military circles" to reassure his listeners as to the security of Soviet frontiers. "The USSR," he says, "is not alarmed, but is watchful."

A further explanation may lie in the Kremlin's desire to demoralize the numerous and increasingly troublesome anti-Communist elements in the USSR and its satellites. These groups, who have been living in the hope of a US invasion of Eastern Europe, have no doubt been encouraged by the President's policy. But Tarle warns them, in effect, that such a hope is futile, because even US military authorities realize the impossibility of successfully penetrating Soviet-dominated territory.

#### Difficulties in the Greek Civil Service

One of the many organizational problems which the Greek Government faces was well illustrated by the 48-hour strike of Government employees called on 8 April. This strike, the third in six months, was non-political; its immediate cause was the Government's failure to meet the workers' demands for an Easter bonus, but the underlying trouble is a civil service wage scale far below that necessary to meet inflation prices. While recognizing the desperate plight of its employees, the Government feels that any substantial wage increase would constitute a serious threat to the national budget, and is reluctant, therefore, to take any positive action in the matter.

TOP SECRET

**TOP SECRET**

The Greek civil service, which consists of about 85,000 employees, is estimated to be overstaffed by some 25,000 persons. Furthermore, the majority of civil servants are so inherently incompetent and are forced to spend so much time in outside employment in an effort to gain a bare subsistence that they are incapable of carrying out the simplest governmental functions, such as economic controls and tax collection. Unless the civil service is drastically reorganized, the Government will not be able to implement effectively any reconstruction program for Greece -- with or without foreign aid.

**TOP SECRET**

TOP SECRET

NEAR EAST-AFRICA

Effect of Maladministration on Iran's Security

Mounting discontent over governmental maladministration in Iran may lead to serious disturbances which would provide an excuse to the USSR to intervene in Iranian affairs. Notably in Azerbaijan, official corruption, bribery, and repressive military measures, as well as oppression of the peasantry by the wealthy landowners, have provoked popular reaction against the Central Government, which a few months ago was considered Azerbaijan's liberator from its pro-Soviet regime. Despite the appointment by Prime Minister Qavam of some able men to administrative posts in the province, the Government has failed to install an enlightened and progressive regime. Not only in Azerbaijan but elsewhere in Iran, tribal leaders have become increasingly aroused over maltreatment of their people by the Army; these leaders threaten to form a coalition to resist tribal disarmament and even speak of emigrating.

Corrective measures in Iran are hampered by the fact that the Shah and Qavam, because of their personal differences, have failed to agree on policy matters. Their continued failure to adopt administrative reforms and a rational tribal policy is likely to cancel other efforts to maintain Iran's integrity and independence.

TOP SECRET

TOP SECRET

FAR EAST

Kuomintang Likely to Retain Political Control in China

Although negotiations between the Chinese minority parties and the Central Government regarding increased minority party representation in the Government have made substantial headway in recent weeks, Chiang Kai-shek probably will not tolerate any real weakening of Kuomintang political control so long as he continues his military efforts to suppress the Chinese Communists. Developments at the recent plenary session of the Kuomintang's Central Executive Committee indicate a trend toward the continuation of one-party rule in China, behind a facade of democratic reorganization, and the emergence of the extremist CC Clique as the dominant group within the Kuomintang party.

In this session, the CC Clique revealed its antipathy toward multi-party government by attempting to halt plans for governmental reorganization. Although Chiang effectively blocked this attempt and once again demonstrated his ability to create an outward semblance of Party unity, he did not appear inclined to check the efforts of the CC Clique to gain a dominant position within the Kuomintang itself.

Chiang probably permitted the CC Clique to increase its strength within the KMT because it possesses those qualities which can offer him maximum political support during his military operations against Communists. The CC Clique, more fanatically anti-Communist than any other group, is the most disciplined and cohesive faction in the KMT; its organization is far more comprehensive than that of the relatively liberal Political Science Group of the KMT, and extends through the entire political structure in China, down to and including county administrations.

During its period of ascendancy, the CC Clique will probably make every effort to extend its hold on the Party and the country, concentrating on the capture of top administrative posts at the national government level. Already there are signs that the Clique, fairly secure in its control of Party organization and of an influential part of the Army, is seeking to expand its influence in the economic and financial field. The Clique, likewise, probably aims to build up maximum political strength in anticipation of the national elections scheduled for this summer.

TOP SECRET

TOP SECRET

In his fight against the Chinese Communists, Chiang Kai-shek, therefore, is in the paradoxical position of depending upon that faction within his Party which seeks to maintain one-party domination and which may aggravate those social conditions which basically give strength to the Communist movement. If his military campaign achieves success at an early date, the Generalissimo will probably be able to reduce the influence of the CC Clique and to bring forward the liberal elements in the KMT who favor genuine multi-party government. Prolongation of the civil conflict, on the other hand, would progressively weaken Chiang's ability to circumscribe the CC Clique's activities; and, under these circumstances, he might tolerate continuing one-party rule, if only to avoid a split within the KMT ranks that would lead to the resurgence of political regionalism within China.

US de facto Recognition of the Indonesian Republic

US de facto recognition of the Indonesian Republic will be communicated to Indonesian Prime Minister Sjahrir through the Netherlands Foreign Office. This method of recognition followed a complaint by the Dutch Government that direct US recognition of the Republic -- originally contemplated by the State Department -- would seriously jeopardize the implementation of the Linggadjati Agreement by conveying the impression that the Republic was a sovereign nation rather than a component part of a sovereign entity, the United States of Indonesia. In order to maintain supervision of foreign relations with the Republic, the Netherlands Foreign Office has requested that all matters pertaining to the Netherlands Indies be conducted under the cognizance of the Far Eastern Office of the Ministry of Foreign Affairs in Batavia.

The question of the Republic's diplomatic relations with foreign powers is one of the points in connection with the Linggadjati Agreement on which Dutch and Indonesian interpretations differ. In opposition to the Dutch view, the Indonesian Republic holds that it should conduct its own diplomatic relations abroad before the United States of Indonesia is formed. Since the Republic refuses to consider Dutch interpretations of the Linggadjati Agreement as binding on itself, it will probably make determined efforts in the near future to establish representation abroad either as a part of the Netherlands Foreign Service or, if necessary, independently. The Republic will resist the supervision of its foreign affairs by the New Dutch Far Eastern Office and will endeavor to cir-

- 12 -  
TOP SECRET

**TOP SECRET**

cumvent it wherever possible. This will aggravate Dutch-Indonesian relations at a time when good will is required for the solution of the economic and political problems inherent in the Linggadjati Agreement.

**TOP SECRET**

38

TOP SECRET

42

APR  
4

## CONTENTS

	Pages
TRENDS IN BRIEF . . . . .	i - iii
WESTERN EUROPE	
Franco's Law of Succession . . . . .	1
Soviet Post-Occupation Plans in Austria . . . . .	1
NEAR EAST-AFRICA	
League Strategy for Attainment of Pakistan . . . . .	3
FAR EAST	
The General Elections in Japan . . . . .	4
THE AMERICAS	
Bolivia Enters Argentine Economic Bloc . . . . .	6

42

Document No.	42		
NO CHANGE in Class. <input type="checkbox"/>			
X DECLASSIFIED			
Class. CHANGED TO: TS S C			
Auth: DDA Memo, 4 Apr 77			
Date: 7/17/77 By: 023			
DDA REG. 77/1763			

TOP SECRET

TOP SECRET

## TRENDS IN BRIEF

### WESTERN EUROPE

Franco's new law of succession is designed to neutralize the Monarchist opposition and to stabilize the present Spanish regime (page 1).

The USSR apparently is making plans for subversive action against the Austrian Government, following the withdrawal of occupation forces (page 1).

### EASTERN EUROPE

The death of George II and the ascent of Paul to the Greek throne will have little effect on the political situation in Greece. At some future time, the Left may revive the question of holding another plebiscite, as last year's plebiscite was concerned with the return of George himself rather than with the general question of continuing the monarchy. At the moment, however, the legality of the succession is not questioned. All parties in the government will support Paul: the royalist Right because of conviction, and the Center and the Left-Center because of their continuing fear of the Left. Paul is untainted by association with the hated Metaxas regime and is also less unbending than his predecessor; he should, therefore, prove more popular than George with the Greek people.

The existence of political difficulties in Byelorussia has been confirmed by the disclosure that, during 1945-1946, 90% of the chairmen and 96% of the secretaries of central and oblast party committees were changed. Similar difficulties have previously been reported in the Ukraine, and it is believed that an analogous situation exists in the Baltic states.

### NEAR EAST-AFRICA

The Moslem League's strategy for achievement of Pakistan is indicated by its reported decision to declare the Government of Sind Province an independent State on 1 June 1948 (page 3).

TOP SECRET

TOP SECRET

The renewal of Soviet subversive efforts in northwestern Iran is indicated by Soviet interference in the current Kurdish troubles. The Soviets are reported to be advising Mulla Mustafa and Zerobeg (leaders of the resistance), and also to be grooming Pishevari and other agents active in the Azerbaijan autonomous movement for a return from Azerbaijan SSR to the troubled area. Additional unrest among Kurdish elements, which is expected to result from the recent execution of Qazi Mohammad and three other prominent proponents of the "Kurdish Peoples Republic," may also be exploited by the USSR.

#### FAR EAST

The forthcoming general elections in Japan are expected to result in a new Cabinet which will include right-wing Social Democrats as well as conservatives (page 4).

Diversion of China's Yellow River into its pre-1938 northern course was completed late in March by the Central Government, despite UNRRA requests for delay and over vigorous Chinese Communist protests. This diversion has distinct military advantages for the Nationalist forces, since the river now flows through, and thus divides, the Communist-held areas in northwestern Shantung Province. Heavy floods that may occur this summer will multiply Communist problems in the area. The Nationalists will probably make strenuous efforts to prevent the Communists from carrying out their threat to shunt the flow of water back into Nationalist-held territory by breaking the up-river dikes.

Chiang Kai-shek's complacency regarding Formosa may be altered by his study of objective reports made by US observers which Ambassador Stuart recently submitted to the Generalissimo. Chiang's expressed eagerness to have these reports placed at his disposal suggests that he has not been receiving unbiased information concerning the depth of popular Formosan resentment against the regime of Governor Chen Yi. These reports by US observers make it clear that, unless substantial political and economic reforms are put into effect at once, the growing unrest on the island will require a continuing and substantial military effort.

TOP SECRET

TOP SECRET

The Burmese Anti-Fascist League appears assured of a substantial victory in the elections for the Assembly scheduled for 9-11 April. Three minor opposition groups have boycotted the elections and the chief opposition party, the Communist, which was expelled from the League in October 1946, will not contest League candidates except where Communists have a definite majority. After the elections, the Anti-Fascist League will become the government of Burma and will work out Burma's independence in accordance with the London Agreement of January 1947.

## THE AMERICAS

By its trade treaty with Argentina, Bolivia takes its place beside Chile as a participant in Argentina's plan for an integrated South American economic bloc (page 6).

Paraguay's civil conflict has been confined to minor skirmishes between Government and rebel forces who appear to muster approximately equal military strength. Both factions have failed to round up any substantial foreign support and both Brazil and Argentina are advocating mediation. The absence of large-scale fighting suggests that the Paraguayans, in spite of their traditional readiness to fight, may yet resolve their differences through negotiations leading to the elimination of Morinigo and the establishment of a more democratic government.

Colombia's gasoline shortage, which threatened to induce a political crisis, has been relieved by resumption of shipping on the Magdalena River, the country's main inland transportation route. A seasonal rise in the water level now permits the US-owned Tropical Oil Company to ship petroleum products to distribution points for rail delivery to urban centers.

TOP SECRET

WESTERN EUROPE

Franco's Law of Succession

Franco's new law of succession is designed to render ineffective the Monarchist opposition and to give "stability, continuity, and permanence" to the present regime. Although the new law describes Spain as a kingdom and will, therefore, mislead uninformed Monarchists, it merely provides that Franco's successor as Chief of State may be either a King or an ordinary citizen. Moreover, it obligates this successor to uphold specified "fundamental laws," all of which were promulgated by Franco in order to codify his theory of the State.

Don Juan, the Pretender, has always refused to compromise with Franco and the Falange, and, therefore, cannot consistently accept the new law because it affords him no possibility of legally gaining the throne without first making a deal with the present regime. His only remaining hope for obtaining the throne now lies in subversive action, in defiance of the new constitutional procedure.

Soviet Post-Occupation Plans in Austria

It is increasingly evident that the USSR is laying plans to neutralize the power of the predominantly anti-Communist Austrian Government, following the withdrawal of the Occupation forces. Although the USSR, through its seizure of economic assets, has obtained an economic foothold in Austria, it has been unable to make real progress in its attempts at political penetration. The attitude of the Austrian population has remained strongly anti-Soviet, and the small local Communist Party has been unable to exert effective influence in either government or labor circles. Moreover, the influence which the USSR initially attained in the Austrian Police Force was gradually reduced over a period and has been further reduced by a recent reorganization effected by the Austrian Government against vigorous Soviet opposition.

The USSR is now attempting in the Allied Council to prevent the formation of an Austrian defense force necessary to ensure internal security when the occupation forces depart. The Soviet aim is to facilitate effective subversive operations by a small militant Austrian Communist group (Soviet-financed), supported by demobilized Soviet Army

TOP SECRET

**TOP SECRET**

personnel currently employed as "civilians" in the Soviet-controlled industries of Eastern Austria. According to reports received by President Renner, Soviet troop commanders are concealing stores of weapons in industrial establishments administered by the USSR. Dr. Renner recently expressed informally to US Legation Vienna his desire that consideration be given to establishing a "disinterested protecting force," preferably under UN auspices, in Austria at the end of the occupation. Pending the establishment of the Austrian Army, Dr. Renner believes that such a force is required to prevent Communist uprisings. Such uprisings could be organized either under Soviet, or -- in the case of Carinthia -- Yugoslav direction.

**TOP SECRET**

TOP SECRET

NEAR EAST-AFRICA

League Strategy for Attainment of Pakistan

The Moslem League Government of Sind Province reportedly will proclaim itself an independent state on 1 June 1948. By taking similar action in other League-controlled provinces, the League might gain at least a partial Pakistan (as the British Government has announced that, if an acceptable constitution for British India as a whole has not been framed by June 1948, consideration must be given to the transfer of power to the governments existing at that time in the individual provinces). Thus, if the League maintains control in Sind and in Bengal (where League governments are already installed) and obtains control in the Punjab, it would be in a position after the British withdrawal to combine the areas essential to Pakistan (except the North West Frontier Province). Eventually, the North West Frontier Province also would probably become a part of Pakistan. The Province's geographic isolation, the increasing strength of the League within the Province, and the fact that the local population is over 90% Moslem, suggest that this Province could not long remain in a Hindu-dominated Indian Union.

Two important factors, however, may preclude such developments and induce the Congress Party and the Moslem League to reach a compromise settlement for India: (1) realization by the Congress that if the League succeeds in its strategy the unity of India will be destroyed; and (2) Jinnah's fear that the Punjab Sikhs (a small but powerful minority strongly opposed to Moslem domination) may stage a revolt that would spread throughout India.

TOP SECRET

TOP SECRET

FAR EAST

The General Elections in Japan

The Japanese general elections, scheduled for 25 April, mark a turning point in the course of the occupation. These elections, necessitated by the failure of the present government to deal effectively with the post-war economic crisis, are timed to precede by eight days the inauguration of the new constitution which becomes effective on 3 May. SCAP ordered the Government to hold elections and to institute a more vigorous program of economic controls shortly after having prohibited the general strike against the Yoshida Cabinet. This strike was called by public and government workers' unions for 1 February. The Japanese Federation of Labor withdrew its support of the strike at the last moment, but the Japanese Congress of Industrial Unions and other organizations representing almost 4 million workers backed it until it was forbidden.

Although it was finally averted, this threatened strike nonetheless revealed the conflict between the major parties and the labor unions, as well as the decline of Social Democratic leadership within the labor movement. Only the Japanese Federation of Labor now maintains its allegiance to the Social Democratic Party; the rest of the Japanese labor organizations appear to have come under Communist domination.

The Social Democrats, the largest opposition Party in the present Diet, are nevertheless expected to make the greatest gains in the next elections. According to a recent straw poll, 45% of the electorate favored the Social Democrats -- as against 26% for the Liberals, and 13% for the Progressives (the present Government's Parties). Just before the close of the Diet session, however, the Progressives broke their connections with the Liberals and reorganized themselves under new leadership as the Democratic Party. A new conservative party has thus been formed which may avoid popular association with the discredited Yoshida government, and emerge as the second strongest party in the next Diet.

It is probable that no single party will win a majority in the forthcoming elections and that Japan will continue under a coalition Government. The new coalition, instead of being of purely conservative composition like the Yoshida Cabinet, will probably comprise the right-wing Social Democrats as well as the conservatives (represented by the Liberals and the new Democratic Party). The Communists are expected to remain an insignificant minority in the Diet, though they will be able to exercise

TOP SECRET

**TOP SECRET**

considerable political influence by virtue of their control of organized labor. This control of labor will place the Communists in a position to hamper the new Government in its efforts to implement the stringent measures necessary for Japanese economic reconstruction.

**TOP SECRET**

TOP SECRET

THE AMERICAS

Bolivia Enters Argentine Economic Bloc

With the signing on 26 March of a far-reaching commercial, financial, and cultural agreement with Argentina, revised in response to domestic and foreign objections to the original draft, Bolivia takes its place beside Chile as a participant in the Argentine plan for an integrated South American economic bloc.

The final agreement, which follows the broad outlines of the Argentine-Chilean treaty signed in December 1946, includes the following provisions: (1) a revolving fund of 50,000,000 Argentine pesos (US\$ 12,500,000) which Bolivia can use, through the next three years, to cover any unfavorable trade balance with Argentina; (2) the exchange of specified amounts of Argentine agricultural and pastoral products for specified amounts of Bolivian minerals and other exports; (3) the free transit of railroad and highway vehicles between the two countries; (4) the annual purchase by Argentina during 1947-51 (even if prices are lower elsewhere) of 8,000 tons of Bolivian tin at a price subject to revision each year; and (5) loans of 100,000,000 Argentine pesos (US\$ 25,000,000) for industrial expansion and an equivalent amount for public works, the latter to be increased if necessary.

This agreement, which awaits ratification by both governments, is a further indication of Bolivia's economic dependence on Argentina and Argentina's determination, with respect to the raw materials it needs for its domestic industrialization program, to insulate itself from the hazards of the free market.

TOP SECRET

38

TOP SECRET

41

## CONTENTS

	Pages
TRENDS IN BRIEF . . . . .	i - iii

### WESTERN EUROPE

Communist Victory in Berlin Trade Union Elections . . . . .	1
Outlook for Non-Communist Parties in France . . . . .	1

### EASTERN EUROPE

Soviet Reaction to Truman Proposals . . . . .	3
Reduction of Soviet Forces in Eastern Europe . . . . .	3
German Prisoners of War in the USSR . . . . .	4
The Campaign Against the Greek Guerrillas . . . . .	4

### FAR EAST

Phibul's Return to Siamese Politics . . . . .	6
---	---

### THE AMERICAS

Possible Reorientation of the CPD . . . . .	7
---	---

41  
Document No. 41  
NO CHANGE in Class.   
 DECLASSIFIED  
Class. CHANGED TO: TS S C  
DIA Memo, 4 Apr 77  
Auth: DIA REG. 77/1763  
Date: 27/1/78 By: 073

TOP SECRET

TOP SECRET

TRENDS IN BRIEF

WESTERN EUROPE

The recent victory of the Communist-controlled Soviet Unity Party (SED) in the Free German Trade Union (FDGB) elections in Berlin represents a significant advance in the USSR's efforts to gain control of the German trade union movement (page 1).

Almost all non-Communist French Parties have come to believe that eventually it will be possible to defeat the Communists in a test of strength (page 1).

Unless the US Senate ratifies the Italian Peace Treaty promptly, there is danger that the Italian Constituent Assembly may ultimately refuse to ratify it. The danger is indicated by the fact that Premier De Gasperi has been forced by public opinion to defer discussion of the Treaty in the Assembly until the US has acted. If it has additional time to build up, opposition to ratification may become too strong for De Gasperi to overcome. Italian hopes for revision have been raised by expressions by the Governments of Panama, Argentina, Ecuador, Uruguay, and China favoring revision; belief that the "Truman Doctrine" may apply to Italy; and statements by Italo-American groups and individuals in the US that the US Senate may modify the terms. Early US ratification, however, will probably lead to similar action in Italy.

A stimulus to Moroccan nationalism is feared by the French and Spanish governments when the Sultan of Morocco visits Tangier on 9-13 April. No Sultan of Morocco has entered Tangier in nearly sixty years. The Sultan has recently shown signs of increased independence and the French and the Spanish are apprehensive that he may use the freedom of Tangier to encourage his nationalistic partisans. However, the French and Spanish, as suzerains of Morocco, are expected to receive the Sultan with great ceremony, despite their covert opposition to the visit.

EASTERN EUROPE

Soviet reaction to President Truman's proposals for aid to Greece and Turkey continues cautious (page 3).

Reduction of Soviet forces in Germany, Austria, Poland, and Hungary is believed to have no special significance (page 3).

TOP SECRET

TOP SECRET

Soviet-published figures of German PWs in the USSR do not include the many Germans whom the USSR is exploiting for economic, military, or political purposes (page 4).

The Greek Army's impending campaign against the guerrillas may be protracted by the inclination of the Greek General Staff to use orthodox tactics (page 4).

#### NEAR EAST-AFRICA

Barzani Kurds seeking refuge in the USSR (apparently with the approval of Soviet officials) have been turned back by the Iranian Army, which sustained serious losses. A speedy liquidation of the Barzani issue may result, however, if the Minister of War at Tehran accepts the proposal by the paramount chief of the powerful Shikkak (Iranian Kurdish) tribe that the Iranian Kurds unite and cooperate with the Iranian Army in its drive against the Barzanis and other renegade Kurdish elements.

The union of Transjordan and Iraq will be urged by King Abdullah during the forthcoming visit to Amman (Transjordan) of the Regent of Iraq and Acting Prime Minister Nuri As-said. This union, if established, will be the first concrete step in the implementation of the Greater Syria plan. Regardless of the outcome, however, the conversations in Amman are certain to cause rumors concerning the establishment of a Greater Syria and may produce dissension in the Arab League Council, which is now meeting in Cairo.

#### FAR EAST

Siam's political crisis has been aggravated by ex-Premier Luang Phibul Songgram's return to political activity. Liberal Siamese, the Chinese in Siam, Britain, and France are expected to oppose his return to power (page 6).

#### THE AMERICAS

Fear that the (Inter-American) Committee for Political Defense may be reoriented for use against Soviet penetration of the Western

TOP SECRET

TOP SECRET

Hemisphere may have led the Chilean representative to demand immediate abolition of the Committee (page 7).

Moving to forestall a threatened revolt, the Provisional President of Venezuela, Romulo Betancourt has: (1) reconstituted the cabinet in order to "broaden the base of the Government"; (2) granted amnesty to all political exiles; and (3) called on the Constituent Assembly to provide for presidential elections by July. The new cabinet, despite its avowed purpose, is not likely to satisfy the demands for reform being made by the rebellious supporters of ex-President Lopez Contreras.

A British firm has submitted to the Argentine Government bids on the construction of a cruiser and an unspecified number of destroyers. While the bids would not have been submitted unsolicited, Argentina will probably, in view of the large amount of money involved and the incompatibility of the transaction with the Hemisphere military standardization program, postpone action until the present impasse with regard to the Rio Conference is terminated. Argentina may have opened negotiations with the British firm as a means of exerting pressure in favor of an early date for the conference.

TOP SECRET

TOP SECRET

## WESTERN EUROPE

Communist Victory in Berlin Trade Union Elections

The recent smashing victory by the Communist-dominated Socialist Unity Party (SED) in the Free German Trade Union (FDGB) elections in Berlin represents a significant advance in the USSR's efforts to control the German trade union movement. The SED success can be ascribed: (1) to exploitation of an election-system to which the US and the UK reluctantly agreed when the USSR's intransigence threatened to saddle the Western Powers with the responsibility for preventing trade union elections in Berlin; (2) to the strong support given the SED by the Soviet Military authority; and (3) to the organizational weakness of the opposition.

The USSR may be expected to employ similar tactics in the event that the FDGB succeeds in its efforts to become the national German trade union. Such success, however, would be contingent upon the establishment of SED in the Western Zones, because the German Communist Party (KPD) does not have an adequate political machine in the labor organizations of the US and UK Zones.

Outlook for Non-Communist Parties in France

The general relief that was felt by all French Parties that the Ramadier Government, however weakened, was able to survive the recent crisis indicates that no single group was anxious to unseat the Cabinet. On the other hand, no one believes that the Government can long continue in power, as was indicated by the unusually long recess (1-24 April) which the National Assembly voted for itself. (This recess could be terminated at any time, if necessary.) This holiday is intended to preclude overt dissension and thus give the impression of French political stability during what may be the crucial days of the Moscow Conference of Foreign Ministers.

Almost all non-Communist Parties and their leaders have come to believe that time is now on their side and that eventually it will be possible to defeat the Communists in a test of strength. The anti-Communists have been encouraged to this belief by a growing sense of participation in a common cause and by increasing success in checking and eliminating Communist infiltration of Government Ministries. Hopes that Communist control of the CGT (General Confederation of Labor)

TOP SECRET

TOP SECRET

may be weakened have been raised by indications of increasing discontent with Communist leadership among the workers and by the reported drop of 10% in the membership of the Communist Party and the CGT during the past six months. Vice-Premier Thorez's recent public admission of his primary loyalty to Moscow and recent Communist Party tactics are leading French workers increasingly to believe that the Party is operating, not for their benefit, but for purely political ends.

It will take time, however, for a union of "grass roots" opinion and political leadership to crystallize. Thus far, no leader has emerged who can appeal to the popular imagination and hold the diverse anti-Communist elements in a coalition. However, even certain influential individuals who dislike De Gaulle's personality envision him in this role, largely because of his symbolic appeal to the masses.

These developments do not mean that Communism has been routed in France. French politics have been notoriously unstable. Moreover, the program for world Communism which the Kremlin decides to follow at the end of the Moscow Conference may have a decisive influence on the composition of the French Government; should the USSR decide upon a "strategic retreat," the French wing may be ordered to leave the Cabinet and join the opposition. Nevertheless, French political opinion is clarifying and the non-Communist forces, which constitute an overwhelming and real majority of the people, are beginning to see a way to victory, based on a solid foundation.

TOP SECRET

TOP SECRET

## EASTERN EUROPE

Soviet Reaction to Truman Proposals

Although Soviet propaganda has seized upon President Truman's proposals regarding Greece and Turkey as further evidence of "US imperialism," the true Kremlin reaction remains obscure. At the CFM meeting and elsewhere, Soviet tactics appear, if anything, less aggressive and Soviet manners less arrogant since the President's speech. Actually, there has been no real softening of the USSR's stand on vital issues, but the Kremlin appears to be moving cautiously, perhaps in an effort to appraise world reaction to the US plan prior to the adoption of a counter-strategy. The USSR may also be considering restraint at this time in order: (1) not to strengthen the President's hand by offering evidence of Soviet aggressiveness while the Greek and Turkish proposals are under consideration by Congress; and (2) not to antagonize the Western representatives at the Moscow CFM meeting until the USSR has explored all possibilities of bargain and compromise on controversial issues.

Reduction of Soviet Forces in Eastern Europe

Soviet troop movements in Eastern Europe have resulted in a reduction of the estimated number of troops in Hungary from 55,000 to 40,000, in Austria from 45,000 to 40,000, in Germany from 500,000 to 400,000, and in Poland from 120,000 to 100,000. Although several conflicting reports have been received recently regarding the strength of Soviet forces in Bulgaria, none has been sufficiently conclusive to warrant a change in the present estimate of 140,000.

No special significance is attached to these reductions. The USSR had previously declared its intention to withdraw from Austria -- possibly by the end of 1947 -- and also to reduce its forces in Germany. Forces in Hungary (other than line-of-communication troops) must, of course, be withdrawn in accordance with the Peace Treaty. Inasmuch as Soviet units in Poland are required theoretically to maintain communications with forces in Germany, a reduction there is in line with the apparent decrease in Germany.

TOP SECRET

TOP SECRET

German Prisoners of War in the USSR

The Soviet news agency, TASS, has announced that there are 890,532 German prisoners of war in the USSR. This figure is in sharp contrast to US estimates of from two to three million. The Soviet total presumably does not include those Germans in the USSR no longer classed as prisoners, who are being exploited as "free labor," or for military, political, and technical purposes. These categories include: (1) prisoners persuaded or coerced into signing "contracts" to work in the USSR, some of whom have even "accepted" Soviet citizenship; (2) young ex-Navy and ex-Luftwaffe officers induced to enlist in Soviet forces; (3) other officers reportedly enlisted in a "German Legion" rumored to be forming in Soviet territory; and (4) ex-prisoners trained as "agitators" for carrying out under Communist surveillance political missions in Germany and elsewhere.

Prisoners returned to Germany by the USSR consist almost exclusively of the "agitators," the physically disabled, and some few brought back to work in Soviet-controlled industry. This number has been partly offset by those originally captured by the US and the UK who, upon release, have been re-arrested by Soviet authorities in the Eastern Zone and deported to the USSR.

Thus, although the Soviet Union may have in fact reduced the number of Germans classed as "prisoners," it does not appear to have reduced substantially the number of Germans actually under its control. The labor and technical abilities of these Germans are in great demand in the USSR. The political potential of a mass of Germans indoctrinated to serve Soviet purposes is obvious. The exact nature of the military employment of these Germans in the USSR remains obscure, but it is entirely possible that the USSR contemplates the development of a large and well-disciplined German force under Soviet control.

The Campaign Against the Greek Guerrillas

The forthcoming campaign by the Greek Government against the guerrillas may well decide the political control of northern Greece. The guerrillas have an estimated 14,000 men; the National Army has a total strength of 103,000, but for various supply and political reasons can put only enough men in the field to outnumber the guerrillas about three to one.

TOP SECRET

TOP SECRET

During the German occupation, the German Army, in concentrated drives with crack mountain troops which outnumbered the resistance fifteen to one, could not pin down and eliminate the guerrillas. Such small successes as the Germans did achieve occurred when they adopted guerrilla tactics and abandoned mechanized equipment, which had proved useless in mountain terrain.

The British Military Mission has advised the Greek General Staff to adopt special tactics, including the use of commando units. However, the commando units have been badly organized, and reports indicate that the Greek Army in preliminary operations is using orthodox methods of fighting. The Greek Army has already complained that the guerrillas, when attacked, have withdrawn "where armored cars could not follow." General Vendiris, Greek Chief of Staff, has even expressed the naive hope that the guerrillas will concentrate where he can meet and destroy them. Furthermore, assurance of substantial materiel from abroad might encourage the Army to minimize the urgency of the situation and plan for a long campaign against the guerrillas.

The only hopes for a successful conclusion of the campaign are that the Army will change its tactics or that the flow of arms from the Soviet-satellite countries can be cut off, thus forcing the guerrillas to disband for lack of supplies. If the campaign is prolonged indefinitely, the Army will become demoralized and the guerrillas will achieve a political, and possibly a military, victory.

TOP SECRET

**TOP SECRET****FAR EAST****Phibul's Return to Siamese Politics**

Field Marshal Luang Phibul Songgram, Premier of Siam under the Japanese occupation, has announced his intention of re-entering Siamese politics and is reportedly forming a "rightist minority" party which claims the support of the Army, the present Parliamentary opposition Democrat Party, and 60% of the Senate membership. A determined press campaign is being launched to demonstrate that Phibul was in fact anti-Japanese and to justify by the exigencies of war the dictatorial nature of his former regime. Government papers are countering with reminders to the people that a restoration of Phibul to power will be resented by the Western Powers and that, although Phibul was released from war crimes trials by a legal technicality, he is not innocent of those crimes.

Phibul's emergence from political retirement has been brought about by widespread popular dissatisfaction with the failure of the present Damrong Government to solve the economic problems and by the likelihood of a change in pro-US administration when Parliament is convened in May. This change had been expected in February following the return of the Elder Statesman, Nai Pridi Phahomyong. Royalists and conservatives who favor a strong government and oppose the rise of Communism and of labor influence may provide considerable support in Parliament for Phibul. Despite the fact that the Commander-in-Chief of the Siamese Army supports Pridi, a royalist anti-Chinese faction among Siamese officers may support Phibul in a military coup d'etat in order to restore the restrictive controls on Chinese activities which were in effect during Phibul's wartime administration.

Phibul's return to politics intensifies and complicates the political crisis in Siam. He is greatly admired by some and intensely disliked by others; any political campaign in which he becomes involved will be characterized by bitterness and force. Phibul's return to power will be opposed by the Chinese in Siam and will be unwelcome to the UK and France. It would also aggravate Sino-Siamese friction and might jeopardize Siam's commitments in the British-sponsored rice program and in the settlement of the border issue with French Indochina.

**TOP SECRET**

TOP SECRET

THE AMERICAS

Possible Reorientation of the CPD

The Chilean representative on the Emergency Advisory Committee for Political Defense (CPD) at Montevideo, Senor Montt, believes that the Committee should be abolished, now that the war is over. The CPD, the Inter-American Defense Board, and the Inter-American Juridical Committee were formed as a result of the Rio Conference of Foreign Ministers in 1942. Senor Montt is a member of a subcommittee inquiring into methods of reducing the organizations' personnel and expenses. As other members of the subcommittee reportedly do not share Senor Montt's views on the abolition of the committee, further developments are improbable at this time. The CPD's mission, however, as understood during the war, is nearly accomplished, so that the question of its abolition or reorientation cannot be indefinitely postponed.

The CPD, created originally to assist in the apprehension of Axis elements in the Western Hemisphere, could, under the relative resolution of the Conference at Chapultepec, be readily adapted for use against Soviet penetration of the Hemisphere. The Chilean representative's attitude, therefore, is of great interest in view of the following considerations: (1) Senor Montt speaks for a government which has three Communist ministers, and could not consistently support such a reorientation of the CPD's efforts; (2) the Chilean Government alone, among the 20 other American Republics, has expressed reluctance to accept the financial responsibilities that will necessarily attach to the future Hemisphere Defense Pact; and (3) Senor Montt is reported to have said privately that he regards the CPD as a "US instrument," and that Argentina and Chile are "rapidly bringing neighboring countries into association with them to defeat this permeating US influence."

TOP SECRET

38

40

TOP SECRET

## C O N T E N T S

	Pages
TRENDS IN BRIEF . . . . .	1 - iv
<b>GENERAL</b>	
Reaction to President Truman's Speech . . . . .	1
<b>WESTERN EUROPE</b>	
Right-Left Rift in France . . . . .	2
Possible Spanish-Soviet Rapprochement . . . . .	3
<b>EASTERN EUROPE</b>	
Morale in the Greek Army . . . . .	4
<b>NEAR EAST-AFRICA</b>	
Disorders Continuing in Northwest India . . . . .	5
Turkey Weighs its Defense Requirements . . . . .	5
<b>FAR EAST</b>	
Accord and Discord in Indonesia . . . . .	7
Difficulties Facing Prospective French-Vietnam Negotiators	7
<b>THE AMERICAS</b>	
Civil War in Paraguay . . . . .	9
Left-wing Liberals Gain in Columbia . . . . .	10

Document No. 40  
 NO CHANGE in Class.   
 DECLASSIFIED  
 Class. CHANGED TO: TS S C  
 DDA Memo, 4 Apr 77  
 Auth: DDA REG. 77/1763  
 Date: 27/1/78 By: DLB

TOP SECRET

TOP SECRET

TRENDS IN BRIEF

GENERAL

Foreign reactions to President Truman's speech on Greece and Turkey have been generally favorable except from the Communists and the extreme left (page 1).

WESTERN EUROPE

The increasing rift between the French Communists and anti-Communists, encouraged by President Truman's recent speech, has seriously weakened the position of the Ramadier Government (page 2).

The possibility of a Spanish-Soviet rapprochement is suggested in recent reports (page 3).

A projected cut in Sweden's imports from the US is necessitated by Sweden's desire to fulfill its bilateral trade agreements with Eastern European countries and the USSR and to conserve its dwindling foreign exchange reserves. Substantial Swedish credits were granted the USSR and other Eastern European countries under these trade agreements; the imports, however, on which Sweden bases its production of goods for delivery under these agreements, come from hard currency nations, chiefly the US and Latin America. Having virtually exhausted its foreign exchange reserves in hard currency, Sweden is banning luxury imports from these countries in order to obtain, if possible, the basic commodities necessary to fulfill its export program to Eastern Europe and the USSR.

The troublesome question of the Monarchy in Italy may be revived and the breach between Communists and non-Communists widened if the Constituent Assembly passes a Decree Law recently drafted by the Cabinet. The law provides that attempts to reconstitute Fascism or the Monarchy by violence or propaganda shall be a penal offense. It is broad enough to furnish Communists with a powerful weapon for eliminating their enemies, and has met with immediate and hostile public reaction.

TOP SECRET

TOP SECRET

## EASTERN EUROPE

Continued high morale in the Greek Army, essential to the success of impending operations against the guerrillas, depends upon implementation of President Truman's recommendations for aid to Greece (page 4).

A year-old exchange of correspondence between an obscure military academy professor and Marshal Stalin -- in which Stalin commented at length on the value of a strategic retreat that paves the way for a decisive defeat of the enemy -- has recently been published in Moscow. Publication at this time may indicate that the party faithful are being prepared for such a retreat on the diplomatic front. Should such a maneuver materialize, it would suggest that the USSR, in the face of determined Western opposition, had temporarily abandoned the diplomatic offensive in order to concentrate on the solution of present internal difficulties.

## NEAR EAST-AFRICA

Continuing disorders in northwest India are the result of Moslem League efforts to gain control of the Punjab and the Northwest Frontier Province as part of the Pakistan plan (page 5).

Turkey's continued resistance to Soviet demands depends upon increasing the country's economic stability as well as its military potential (page 5).

Further protests from the Arab world may be expected to result from the continuing FBI investigation of the Washington Arab office. In a formal complaint to the US (describing the search as an "unfriendly act directed against the whole Arab world") the Iraqi Government stated that the FBI would have done better to search the Hebrew Society of National Liberation, which allegedly supplies Palestinian terrorists with arms and funds and which "is a foreign institution subject to control and search, as is the Arab Bureau." The episode will undoubtedly be discussed by the Arab League, now meeting in Cairo, and may lead to a deterioration of US relations with the Arab world.

TOP SECRET

TOP SECRET

FAR EAST

Although the Dutch Commission-General has been authorized to sign the Indonesian Agreement, recent Dutch operations in East Java put a severe strain on Indonesian willingness to accept Dutch pledges (page 7).

Difficulties of determining the form of an Annamite Government, because of divergent French and Viet views, will complicate the task of the newly appointed High Commissioner of Indochina Bollaert (page 7).

Sinkiang's Turki natives have made new demands on the Chinese, and martial law was declared in the provincial capital during the first week of March. However, the situation in the capital is now "outwardly nearing normal," and the return to Sinkiang of Governor Chang Chih-chung, who negotiated an agreement with the Turki natives last year, is expected to facilitate the settlement of remaining differences.

Chiang Kai-shek's concern over the military situation, together with the public assurances by his Chief of Staff that the Chinese Communists would be suppressed within three months, confirms earlier indications that the Generalissimo regards a quick military victory as the only answer to China's present problems (see Weekly Summary of 7 March, page 8). Because it is imperative that under such a program he retain maximum control over the Central Government's military and fiscal operations, it is unlikely that Chiang will permit any real "democratization" of the Government in the near future. Rather than coaxing the third-party political groups into the Government by means of political concessions, Chiang apparently has decided that the situation calls for terroristic action by police and local governmental administrations throughout Nationalist China. It is probable that these repressive measures will alienate, rather than inspire, the support of the third-party groups.

THE AMERICAS

The rebellion in Paraguay is expected to result in the overthrow of the Morinigo dictatorship (page 9).

TOP SECRET

TOP SECRET

The results of recent congressional elections in Columbia indicate that the bulk of the dominant Liberal Party looks to Eliecer Gaitan for leadership. Gaitan thus will probably be a strong contender at the next Presidential elections.(page 10).

The Brazilian Communist Party's National Executive Committee has instructed the party's strongest section (in the strategically situated state of Sao Paulo) to do nothing in the current post-electoral period that might invite anti-Communist measures by the Dutra Government. The instructions, undoubtedly an authoritative statement of the tactics the Communists will adopt throughout the country, direct the attention of the Sao Paulo Communists to (1) the fact that, in view of the Communist showing in the recent elections, repressive measures by the Government are a definite possibility; (2) the wisdom of consolidating the Party's spectacular gains during its 18 months of legal existence; and (3) the need for an intensive recruitment program, not only in the trade union movement but among rural workers as well. The Brazilian Government, however, is committed to the elimination of Communist influence in the Sao Paulo trade unions, and it seems improbable that the Communists can intensify their recruitment program there without precipitating the clash the instructions seek to avoid.

TOP SECRET

TOP SECRET

GENERAL

Reaction to President Truman's Speech

Reaction to President Truman's speech on Greece and Turkey has, in general, been as expected: conservative and middle of the road elements have welcomed the statement of a "new US foreign policy," and Communists have attacked US "imperialism" and "dollar diplomacy."

Some commentaries, while generally applauding the speech, contain a significant note of warning. In England, France, Switzerland, and the Scandinavian countries, for instance, there is a feeling of uneasiness over the future of US-Soviet relations. Some observers fear that these countries, caught between two powerful blocs, must review their own foreign policy and perhaps eventually choose between them. On the other hand, in France, at least, the speech appears to have had a tangible effect in encouraging the center elements to take a stronger stand against the Communists.

The Soviet Government has so far made no official statement. PRAVDA and IZVESTIA have attacked the speech, but with no more than their customary virulence. The USSR probably has not yet decided just what tactics to pursue in attempting to counter the effects of the President's statements. The Soviet satellite countries have followed the line laid down by the Moscow press. There is clear evidence, however, that opposition elements within these countries have been greatly encouraged by the President's forthright words. Indeed, they have possibly exaggerated the significance of the speech to themselves, thinking that it implies aid for all anti-Communists in the satellites.

The speech was gratefully received in Turkey and Greece. The Turks feel that credits will help them to rehabilitate their economy and expand their industry, thus increasing the national security. The immediate reactions in Greece have been a new tendency toward political unity, a general upswing in morale (except among Communists and the Communist armed bands, where morale has deteriorated), a new stability in the currency, and a general improvement in business confidence.

TOP SECRET

TOP SECRET

WESTERN EUROPE

Right-Left Rift in France

Increasing efforts by non-Communist elements in France to discredit the Communists and even to purge Communists from the Government departments indicate the growing cleavage between the Right and the Left. Common concern over the strategic position which the Communists have attained in France has induced various elements of the moderate Left, the Center, and the Right to take parallel action against the Communists. As a result, violent disputes between Communist and anti-Communist leaders have flared up in the National Assembly and the position of the Ramadier Government has been so weakened that it may fall despite the professed desire among the participants to keep it in power during the Moscow Conference.

In the Assembly disputes, which caused the suspension of three recent successive sessions, the Communist leaders tended to reply to attacks from the Right by statements which demonstrated that they place loyalty to the Party, and hence to the USSR, above any other allegiance. Under instructions from Moscow, the French Communist policy hitherto has been to pose as patriotic and "nationalistic" in order to attract the liberal voters and to support the Government, at least until the end of the Moscow Conference. However, on 11 March, the opening day of debate in the Assembly on Indochina, Vice Premier Thorez, leader of the French Communist Party, was moved to make a most damaging admission. In answer to the oft-repeated charge that he deserted from the French Army in 1939 (when he fled to Moscow rather than fight for France), Thorez shouted: "I was ordered by the Party. I was where duty called." The violence of the ensuing tumult forced adjournment.

The cleavage has been further stimulated by President Truman's speech on aid to Greece and Turkey. The speech has clearly encouraged the non-Communist parties to further resistance against the Communists, and correspondingly may have led the Kremlin to instruct the Communist Party to withdraw from the Government.

The fall of the Ramadier Government would usher in an extremely critical period in France's post-war political evolution. Some grouping of anti-Communist elements might well eventuate, but the selection of a

TOP SECRET

TOP SECRET

leader will prove difficult. Bidault appears to be losing support within the MRP and is, therefore, an unlikely candidate. An increasing number of MRP and Radical Socialist Party members seem to be looking to General DeGaulle as the only national leader capable of assuming control, although opposition to him within these same Parties remains strong.

#### Possible Spanish-Soviet Rapprochement

The possibility of a rapprochement between Spain and the USSR has been raised by recent reports which appear to have a more substantial basis than the many rumors on this subject which have been current for months. On the eve of the Moscow Conference, Spanish Foreign Minister Martin Artajo informed the US Charge in Madrid that the Soviet attitude toward the Franco regime had been "considerably" and "favorably" modified, that the USSR may contemplate the establishment of relations with the Spanish Government, and that the latter, in turn, may modify its previous anti-Soviet position. More recently, the UK Foreign Office has received a secret report that a Swiss intermediary has approached a Franco representative with a Soviet overture looking toward the establishment of Soviet-Spanish economic relations, and that the Spanish response was somewhat encouraging.

The Franco regime may be impelled to such action, or at least to give the impression that it is contemplating such action, by its own needs for foreign economic assistance. Spain would thus hope either to obtain economic aid from the USSR or to utilize the threat to obtain concessions from the US and UK. The USSR, on the other hand, particularly as a result of President Truman's speech, might welcome any opportunity to gain a foothold in Spain as a counterbalance to the US move to aid Greece and Turkey, and as a base for Communist activities in North Africa and Latin America. The Soviets may also consider it advantageous, by extending aid to Spain, to prolong the Franco regime as the best means of driving the Spanish masses toward a reckless extremism from which the Spanish Communist Party presumably would benefit. Otherwise the USSR risks the growing possibility that Franco will be succeeded by an anti-Communist combination of moderate leftists and moderate monarchists.

TOP SECRET

TOP SECRET

## EASTERN EUROPE

Morale in the Greek Army

In the intensive campaign against the guerrillas scheduled to begin about 10 April, morale in the Greek Army will be as decisive a factor as the materiel which the Greeks hope to obtain from the UK and the US. Low morale, which contributed to the Army's numerous defeats by the guerrillas, resulted from (1) lack of faith in the Government, (2) propaganda of KOSSA (a leftist organization which foments dissension within the Army), (3) the resentment of many reservists who have been on active duty since 1940 against the governmental policy of retaining loyalists while releasing from the service men of doubtful political affiliations, (4) fear for families remaining in leftist areas, and (5) low pay.

Morale in the Greek Army reached a new high as a result of President Truman's address to the US Congress. Previously, it was bolstered by Secretary Marshall's declaration of US interest in Greece, by an Army victory against 1500 guerrillas in Macedonia, and by the Government's arrest of EAM (Communist) leaders in Athens. Although further military successes against the guerrillas will contribute to sustaining the improved spirit of the Greek Army, a new low in morale is anticipated unless President Truman's recommendations for aid to Greece are supported by Congress, and unless--when the danger from Communist armed bands has been eliminated--the Greek soldier can return to a more stable economy.

TOP SECRET

TOP SECRET

## NEAR EAST-AFRICA

Disorders Continuing in Northwest India

The month-long civil disobedience campaign in the Punjab, by which the Moslem League attempted to further its scheme for an independent Pakistan, caused the resignation of the Coalition Government in late February. The subsequent effort by the League to form a new government was unsuccessful and resulted in bitter communal fighting, which spread into the Northwest Frontier Province.

In the Punjab, key province in the Pakistan Plan, a highly militant Sikh minority, plus a larger group of Hindus, are united in their determination not to live under the control of the Moslem League. Because elections will have to be held in the near future, the League is expected to make an all-out attempt to gain a majority. In the Northwest Frontier Province, the League is attempting to upset the Congress Ministry and thus, together with the Sind (which already has a League Government) to present three provinces to the British as a Moslem bloc in June 1948. On the basis of Prime Minister Atlee's statement of 20 February, the League presumably expects the British to delegate power to such a bloc, when UK troops are withdrawn.

Because they would thereby be included in the principal Hindustan section of India, the Sikhs would probably consent to the suggestion made by the Congress Party Working Committee that the Punjab be divided into Moslem and non-Moslem parts. The Moslem League, however, would oppose the plan because it would detach the thirteen southeastern districts of the Punjab, leaving the Moslems little territory of economic value. The issue of Pakistan is national in scope and, until some broad agreement is reached, communal tension is expected to continue throughout the area.

Turkey Weighs its Defense Requirements

Turkey's stubborn refusal to accede to Soviet demands for a dominant position in the control and defense of the Turkish Straits (and for the annexation by the USSR of strategic areas in northwest Turkey) has been a major obstacle to the extension of Soviet influence in the Near and Middle East.

TOP SECRET

TOP SECRET

The ability of the Turks to withstand continued Soviet pressure will not depend upon the strength of Turkey's armed forces, because, irrespective of the volume of foreign aid, Turkey can never create an army strong enough to defend the country against an all-out Soviet attack. In the final analysis, Turkey's ability to resist Soviet demands will depend upon the maintenance of a healthy economy as an antidote to Communist infiltration, and upon the support of its political integrity by the Western Powers or by an effective United Nations.

The Turkish Government appears to take cognizance of these fundamental factors in Turkey's position in suggesting that, before any new credits are allocated, a study be made of the relative importance of military and of economic expenditures to the national defense. The Turks see clearly that modernization of transportation and communications, and increased agricultural and coal production, would strengthen both the military potential and the economic stability of the country and, at the same time, improve the prospects for the repayment of the loans and the maintenance of the Government's financial integrity.

TOP SECRET

TOP SECRET

## FAR EAST

Accord and Discord in Indonesia

The Netherlands Government has authorized its Commissioner-General in Batavia to sign the Linggadjati Draft Agreement--which establishes the United States of Indonesia and the Netherlands Indonesian Union--without including the controversial Dutch "interpretations." After the Linggadjati Agreement becomes effective, it is believed a further agreement will be reached regulating the flow of commodities between Dutch and Indonesian territories.

These promising developments are largely neutralized by a Dutch offensive in East Java ostensibly to obtain control of irrigation dams and alleviate local floods allegedly caused by Indonesian sabotage. While a truce has been signed terminating these operations, the incident has increased the tension between Dutch and Indonesian forces and has gravely compromised the general truce agreement of October and the over-all cease-fire order of 15 February. While the operations probably will not prevent the signing of the Linggadjati Agreement because both parties desire to reach accord as soon as possible, Indonesian suspicion of Dutch motives and distrust of Dutch pledges has been intensified. This suspicion and distrust will complicate the implementation of the Linggadjati Agreement as well as the negotiation of corollary arrangements by which the future of Dutch-Indonesian relations will be governed.

Difficulties Facing Prospective French-Vietnam Negotiators

Emile Bollaert, the new French High Commissioner to Indochina, has told US Ambassador Caffery in Paris that he is proceeding to Indochina with the determined intention of carrying out all French promises regarding the independence of the various countries within the French Union. These promises, made by officials of the Ramadier Government in the past two months, provide for the freedom of the Annamite peoples within the framework of the French union and the Indochina Federation, and for a union of the Annamite countries (Tonkin, Annam, and Cochin China) in any manner desired by these peoples. According to the French view, however, these concessions can be granted only to a Vietnam government which will provide adequate guarantees against military attacks, such as occurred at Hanoi in December.

TOP SECRET

TOP SECRET

The form of government envisioned by the French for the union of the Annamite countries is a loose confederation in which emphasis would be placed on the prerogatives of the component states in order that the French may retain special economic concessions in Cochin China where most of the French economic interests are concentrated. This concept conflicts with the Vietnam desire for a strong central government which would permit the extension of Vietnam control into the economically valuable state of Cochin China. When negotiations between France and Vietnam are resumed, this difference in views will constitute a definite barrier to early accord. The nature of the military guarantees desired by the French will also be a knotty problem in view of the inevitable disagreement between France and Vietnam on this subject. These important issues, and the mutual distrust and hatred resulting from the past three months of bitter fighting, will greatly complicate the tasks facing M. Bollaert when he arrives in Indochina.

TOP SECRET

TOP SECRET

## THE AMERICAS

Civil War in Paraguay

The Concepcion rebellion is the product of long-smoldering resentment on the part of dissident political and military groups vis-a-vis the dictatorial regime of President Morinigo. Elevated to the presidency by Cabinet appointment in 1940, upon the death of his predecessor, Morinigo was "elected" for a period of five years in a 1943 plebiscite in which no opposition was permitted. While he has been in office, Paraguay has had no representative assembly and, despite repeated promises to hold congressional elections at the earliest possible moment, the regime has at no time given its opponents--many of whom are in jail or in exile--concrete reasons to suppose that constitutional government would be restored within the predictable future.

The history of the present revolt goes back to Morinigo's reorganization of the Cabinet in January. Until then the Cabinet had been based on a coalition between the "Colorados", who are strong supporters of the President, and a somewhat more liberal political grouping that looks for leadership to General Franco, a former president who returned from exile in August 1946. Morinigo created two new ministries and put friendly military men in charge of them. Three days later the "Franquistas", claiming that the President's action violated the agreement under which they had entered the Cabinet, withdrew from the government, and the Minister of National Defense, General Pampliega, called upon Morinigo to resign. Morinigo's answer was a new coalition cabinet of "Colorados" and military men, which decreed a state of siege, threw numerous Franquista and Liberal party leaders in jail, and suppressed the opposition newspapers. This highhanded action appears to have deprived Morinigo of his greatest political asset, which lay in the inability of the groups opposed to the government to strike simultaneously as the Franquistas, Liberals, Communists, and dissident elements of the Army have now done. An attempted revolt of a group of army officers was put down on 28 January. On 7 March Morinigo's police quelled an uprising of Franquistas in Asuncion. On the same day, however, the army garrison in the town of Concepcion initiated the present rebellion, which has spread to the troops in the Chaco region.

TOP SECRET

TOP SECRET

The rebels are in control of the northern part of the country, are developing strength from day to day, and even without further defections on the part of troops now considered "loyal" to the government, will be able to defend their positions over a considerable period. It is improbable, however, that Morinigo, who has numerous opponents within the territory he nominally controls, would be able to hold his present forces together for a sustained struggle. Therefore, Morinigo probably will soon recognize that his position is untenable, and will step down before large-scale hostilities are under way.

Left-Wing Liberals Gain in Colombia

The congressional elections held in Colombia on 16 March have left the Liberal Party with control of both the Senate and the Chamber of Deputies, but, nevertheless, constitute a further step in the development of the political crisis that began in Colombia during the months preceding last year's presidential election.

The real struggle in Colombia, then as now, was between the traditional leadership of the Liberal Party (ex-Presidents Eduardo Santos and Alfonso Lopez and such outstanding political figures as Gabriel Turbay and Dario Echandia) and a vigorous European-trained Bogota lawyer by the name of Eliecer Gaitan. The latter, convinced that the mildly reformist program upon which the Liberal Party was built is no longer appropriate to Colombia's economic and social needs, appealed over the heads of the Party's closely-held directorate to its rank-and-file and to the country's workers and peasants, split the Party's vote in the presidential elections, and brought to power a Conservative (Ospina Perez) who could not conceivably have polled a winning vote against a united Liberal Party.

In the campaign which preceded this week's congressional election, Gaitan, whose political enemies describe him as an unscrupulous rabble-rouser, continued his crusade against the orthodox Liberal leaders. The still-incomplete election returns leave no doubt that the bulk of the Liberal Party's following now look to him. Both for this reason and because most of his orthodox-Liberal rivals will be abroad through the months ahead, Gaitan will probably be the chief

TOP SECRET

TOP SECRET

anti-Conservative contender for the presidency at the end of Ospina Perez's term. Meantime, because of his control of numerous Senate and Chamber seats, he will be in the advantageous position of enjoying power without responsibility, and the facts of his career suggest that he will know how to make the most of this windfall. The orthodox Liberals must make an immediate choice between continuing in President Ospina's coalition government and acceptance of Gaitan's leadership. In either event, Gaitan is raising issues calculated to bring Colombian politics into line with the leftward trend in other South American countries and is the man to watch.

TOP SECRET

14 MAR 1947

38

39

TOP SECRET

## CONTENTS

	Pages
TRENDS IN BRIEF . . . . .	i - iii

## WESTERN EUROPE

Anti-Communist Elements Gain in French Army . . . . .	1
Dissension Within the Italian Labor Movement . . . . .	1
CGT Seeks Wider Control of French Labor . . . . .	2

## EASTERN EUROPE

Soviet Policy on Atomic Control . . . . .	3
Soviet Industrial Plan for 1947 . . . . .	4

## FAR EAST

Prospects for Vietnam Settlement . . . . .	5
--	---

39

Document No. \_\_\_\_\_  
 NO CHANGE in Class.

DECLASSIFIED  
 Class. CHANGED TO: TS S C  
 DDA Memo, 4 Apr 77  
 Auth: DDA DDC 77/1763  
 Date: 21/1/78 By: 023

TOP SECRET

TOP SECRET

TRENDS IN BRIEF

WESTERN EUROPE

The position of anti-Communist elements in the French Army has been improved by Lieutenant General Revers' appointment as Commanding General (page 1).

The unity of the Italian labor movement may be disrupted and an anti-Communist labor bloc formed as a result of Communist efforts to consolidate their control of the Italian Confederation of Labor (page 1).

Wider control of French labor is sought by the CGT in a measure which would give the Communist-dominated body virtually exclusive rights to represent all French workers (page 2).

The Austrian economy will require more outside aid in 1947 than was previously envisaged. Fuel shortages have forced a general shutdown of most industry since December. This situation -- combined with anticipated delay in the importation of necessary raw materials, spare parts, and food -- will reduce Austrian exports in 1947 from the originally estimated total of 120 million dollars to about half that figure. Unless foreign credits are provided to offset this cut, Austrian economic recovery will be further delayed and relief requirements for 1948 will consequently increase.

Italy's political stability has been increased and the position of Premier De Gasperi greatly strengthened by the vote of confidence the latter recently received in the Constituent Assembly where he has successfully defended himself and his Government against charges of corruption. As a result, no serious political crisis is likely before the next national elections.

EASTERN EUROPE

The USSR's desire to defer agreement on atomic control until it possesses the atomic bomb is reflected in Gromyko's recent tirade against the Atomic Energy Commission report (page 3).

TOP SECRET

TOP SECRET

The 1947 phase of the Soviet five-year plan, which purports to benefit the Soviet laborer, is not expected to improve either the general standard of living or the public morale (page 4).

Substitutions in the February food rations in Moscow indicate serious shortages of meats, fats, sugar, and cereals. Available quantities of fresh meat and sugar were reserved for manual laborers but even the rations for these workers were only partially fulfilled. Unless state reserves are released, it is believed that the consumer food situation will continue to deteriorate until the next harvest.

The current political crisis in Hungary, which was precipitated by the Communists' unconstitutional efforts to exploit a conspiracy against the Government in order to increase their political control of the country, seems to have been temporarily resolved. The US note protesting direct Soviet intervention in the affair appears to have forced the Communists to moderate their terms for continuation of the coalition Government. With increased leftist participation, the uneasy coalition is expected to continue until the Communists again feel the time is ripe for demanding further concessions. The Smallholders' Party may be further weakened by the desertion of right wing members either to the rightist Freedom Party or to a projected Catholic party.

Vigorous attacks on the Rumanian Communist Party by two major parties in the Government Bloc (the Dissident Liberals and the Dissident Social Democrats) reflect a growing dissatisfaction with Communist efforts to monopolize control of the Government and the country's economy. This opposition within the Government Bloc may force the Communists temporarily to adopt a more moderate program.

Rumania's Parliament is expected to pass a Communist-sponsored industrial offices bill which, in effect, would nationalize industry without compensating its owners, and would grant the Communist-controlled Ministry of National Economy absolute authority over almost all phases of commercial enterprise. The Communists thus hope to consolidate control over the country, to drive out Western capital, and to facilitate coordination between Rumania's economy and that of the USSR.

TOP SECRET

## TOP SECRET

The Bulgarian Government has ordered all currency in denominations over 100 leva to be exchanged at the State Bank for new currency between 10 and 16 March. This order apparently aims to eliminate the black market and will be utilized at the same time to bring to trial as Axis collaborators and black marketeers all members of the opposition who turn in large sums of money for exchange. The closing of the Turkish-Bulgarian frontier until 17 March was probably designed to prevent the flight of such persons or the exportation of their funds to a safe haven in Turkey.

## FAR EAST

French efforts to form a quasi-puppet regime in Vietnam will probably be abandoned. Because of Ho Chi Minh's continued power and popular support, it is believed that eventually France must negotiate with a government which includes Ho and some moderate elements of the Viet Minh (page 5).

Popular unrest in Formosa still runs high, although Governor General Chen Yi has reportedly promised civil reforms and Chiang Kai-shek has offered public assurances that Formosa would be granted constitutional rights at an early date. Native Formosans apparently are weighing these promises in the light of Chen Yi's imposition of martial law, resulting in systematic repressions and executions, and Chiang's announcement that troops would be sent to Formosa "for garrison duty." Prominent Formosan groups apparently are still convinced that the island's only hope lies in US or UN intervention.

## THE AMERICAS

The Soviet economic mission in Buenos Aires has been recalled to Moscow, and resumption of negotiations for a trade treaty in Buenos Aires seems improbable. Peron's recent outbursts against the Communists, despite the distinctions he drew between "native" and "Russian" Communists, set the stage for the suspension of the discussions. There is, moreover, evidence of a feeling on both sides that the negotiations had made little progress. On the other hand, Senator Molinari, head of the Argentine Goodwill Mission which has been touring Latin America, recently drew attention to the potentialities of Argentine-USSR trade. This may mean either (1) that Argentine leaders are divided on the future of the country's trade relations with the USSR, or (2) that trade negotiations may be resumed in Moscow.

TOP SECRET

## WESTERN EUROPE

Anti-Communist Elements Gain in French Army

The replacement of General Jean de Lattre de Tassigny as Commanding General of the French Army by Lieutenant General Georges Revers (until now Chief of Staff of the Army) appears to have improved the position of the anti-Communist elements within the French Army. De Lattre de Tassigny will continue in the less important post of Inspector General, a position he has held concurrently with his duties as Commanding General. Even though he is an opportunist, and has, at times, been considered persona grata to the Communists, de Lattre de Tassigny cannot properly be considered an adherent to Communist doctrines. Revers, on the other hand, is believed to be the leader of a sizeable anti-Communist resistance organization. Revers' appointment, made at the instance of Paul Coste-Floret, anti-Communist MRP War Minister, resulted from pressure by strongly anti-Communist political leaders.

Despite this failure of Communist Defense Minister Billoux' reported attempts to replace both de Lattre de Tassigny and Revers with his strongly pro-Communist Chief of Cabinet, General Ernest Petit, it is to be expected that Billoux will continue his efforts to increase the power of his Ministry, the exact extent of which is still under cabinet discussion. At present, the Defense Ministry possesses a limited co-ordinating function among the War, Air, and Navy Ministries, but has no control authority over them.

Dissension Within the Italian Labor Movement

The unity of the Italian labor movement may be disrupted at the Congress of the Italian Confederation of Labor (CGIL), scheduled for April. The CGIL, representing all of Italy's important labor groups, has three directors, one representing each of the major political parties: Christian Democrat, Socialists, and Communists. Although the three directors theoretically have parity of power, Communist influence has dominated. A recent Communist proposal that the three-director system be abolished and the Congress operated on a parliamentary basis with officers elected by majority vote indicates that the Communists are now sure of a majority. However, this proposal may result in the secession from the CGIL of the non-Communist elements and lead to the formation of a rival labor confederation. Such a move would be an extension of the present anti-Communist trend in Italy.

TOP SECRET

TOP SECRET

CGT Seeks Wider Control of French Labor

The Communist-dominated CGT (General Federation of Labor), in an endeavor further to strengthen its hold over French labor, has forced through the Superior Commission on Labor Accords a recommendation to the Government that would give the CGT virtually exclusive right to represent all French workers. This recommendation would exclude from negotiations for collective accords those labor unions which have less than 10% of the total organized labor membership in the industry concerned and which do not have at least one-fourth of all union membership in at least one category of workers. Such a development would be a serious blow to the status of the CGT's principal rival union, the CFTC (Christian Labor Federation), and to any relatively small groups in industry, such as organizations of engineers, technicians, and white collar workers, who would then be at the mercy of the masses of unskilled workers. It is likely that the CGT would be accorded this exclusive status should Communist influence in the Government be further consolidated.

TOP SECRET

TOP SECRET

## EASTERN EUROPE

Soviet Policy on Atomic Control

Gromyko's recent tirade against the Atomic Energy Commission report, which surprised the Security Council by its sharp tone, is believed to reflect more accurately the basic Soviet position on atomic energy control than Molotov's earlier assurances to the General Assembly regarding supervision and inspection. Gromyko insisted that the USSR (1) rejects any plan for international possession and control of atomic energy plants; (2) rejects the exclusive right of an international authority to conduct atomic research; and (3) opposes "unlimited access for inspection purposes to all equipment and operations."

In the course of his diatribe, Gromyko charged the US with scheming to set up an atomic monopoly, and for the first time openly pointed to the record as demonstrating that the USSR could expect only unfair treatment from the UN.

Gromyko's intemperate outburst exasperated all of the members of the Security Council except the Polish delegate. Consequently, a few days later the USSR elected to concur in a slightly revised US proposal to refer the report back to the Atomic Energy Commission for further consideration.

These developments illustrate Soviet strategy regarding control of atomic energy. International control of what may eventually prove to be a major source of industrial power would be intolerable to the group which controls the Soviet economy. Nor can this group accept any elimination of the USSR's veto powers. Therefore, in the expectation that US intentions during the next decade will be peaceful, and that the USSR will before long have solved the problem of manufacturing the atomic bomb, the USSR plans to defer any international atomic agreement. Until it has the bomb, the USSR will stall for time, blowing hot and cold on the issue of atomic agreement as may suit the purpose of the moment. In so doing, it must on occasion go through the motions of searching for agreement.

TOP SECRET

TOP SECRET

Soviet Industrial Plan for 1947

The recently announced 1947 phase of the Soviet five-year plan aims primarily at improving the coal, agricultural machinery, foodstuff, rail transport, and housing industries, and confirms previous estimates that these industries constitute the most serious bottlenecks in the Soviet economy. The high priority assigned food and housing indicates that shortages in these fields have had such an adverse effect on labor morale and efficiency as to impair the entire industrial program. The increased emphasis on food and housing, moreover, will divert, temporarily, the national effort from heavy industry, which, however, still retains overall top priority.

Although the 1947 plan is being presented to the Soviet people as a measure to improve their material welfare, it is doubtful if this most recent promise will be fulfilled. Actually, the plan will wring from Soviet workmen the maximum amount of labor in return for a minimum amount of consumer goods. Any benefits from increased food and housing will be offset, in large part, by an industry-wide increase in piece-work norms and by an increase in the state turnover tax -- a Soviet version of the sales tax and a major source of government revenue. The 1947 program, therefore, while correcting the urgent deficiencies in food and housing, cannot be expected to improve the general Soviet standard of living nor to raise, materially, the public morale.

TOP SECRET

TOP SECRET

## FAR EAST

Prospects for Vietnam Settlement

The difficulties of solving the Vietnam problem by force have resulted in several French attempts to establish a puppet regime in order to circumvent the necessity of negotiating with the present Vietnam government of Ho Chi Minh. These attempts began shortly after the commencement of hostilities in December when the French insisted that no conversations were possible with Ho Chi Minh or members of his government. Contact was made in Hong Kong with the former Emperor of Annam and Japanese puppet, Bao Dai, as a figure around whom a new government, amenable to French influence, might be created. At the same time an alternative plan was conceived, which provided for the enthronement of Bao Dai's young son, Bao Long, with a French-dominated Regency exercising actual power. Both possibilities are still being pursued by the French, and Bao Dai's former Prime Minister is now in Saigon negotiating with the French.

In recent weeks, the protracted resistance by Vietnam forces and the unwavering native support of the Viet Minh Communist-front party have forced the French to recognize that Ho Chi Minh continues to be popular and powerful. The increasingly critical French military manpower situation and the unfavorable international reaction to French policy will force the French to seek an early end to hostilities. Consequently, French authorities are maintaining contact with Ho Chi Minh through his representative in Saigon and also through Socialist Deputy Eugene Thomas, who recently arrived in Indochina ostensibly to inspect local communications.

Any imperial regime under Bao Dai or his son would lack popular support and meet with opposition from the Chinese. The latter prefer a government which would include Annamite Nationalists as a counterbalance to the Communists. Such an arrangement however, could not prove satisfactory from the French standpoint because the Nationalists are potentially as inimical to French objectives in Vietnam as the Communists.

Any Vietnam government which does not include Ho Chi Minh or his more moderate followers will, like the present Provisional Government of Cochin China, be limited in scope of authority by the perimeters of French military control and will be open to widespread

TOP SECRET

TOP SECRET

popular opposition and sabotage. France's experience with its regime in Cochin China should discourage a similar attempt in Vietnam and may lead to the eventual formation of a government which would include Ho and moderate Viet Minh elements, several pro-French Anna-mite Catholics, and perhaps Bao Dai as a private citizen. The French presumably would find it possible to negotiate with such a government and might be willing to concede to it a greater measure of independence.

TOP SECRET

TOP SECRET

38

C O N T E N T S

	Pages
TRENDS IN BRIEF . . . . .	i - iv
GENERAL	
Implications of the Anglo-French Treaty . . . . .	1
WESTERN EUROPE	
The British Economic Crisis . . . . .	2
EASTERN EUROPE	
Significant Personnel Changes in Soviet Government . . . . .	4
Anti-Communist Trend in Czechoslovakia . . . . .	4
NEAR EAST-AFRICA	
Shah Unlikely to Eliminate Qavam as Iran's Premier . . . . .	6
FAR EAST	
Dutch Trade Regulations in the Netherlands Indies . . . . .	7
Chiang Plans for Intensified War on Chinese Communists . . .	8

38  
Document No. \_\_\_\_\_  
NO CHANGE in Class.   
 DECLASSIFIED  
Class. CHANGED TO: TS S C  
DDA Memo, 4 Apr 77  
Auth: DDA REG. 77/1763  
Date: 27/1/78 By: 013

TOP SECRET

TOP SECRET

TRENDS IN BRIEF

GENERAL

The Anglo-French Treaty represents an attempt on the part of two victorious allies to preclude the use of Germany in any future conflict (page 1).

WESTERN EUROPE

The UK public appears increasingly apprehensive regarding the prospects for the success of the Labor Government's plan for Britain's economic rehabilitation as set forth in the Government's recent White Paper (page 2).

Italian Defense Minister Luigi Gasparotto's recent announcement--that 94% of Italy's war prisoners in Soviet camps died there--has provoked violent and bitter attacks on the USSR by liberal and rightist newspapers. If, as appears most likely, the USSR now refuses to consider revision of the Italian Treaty, the growing anti-Soviet attitude of many Italians will increase and may cause the Italian Communists to lose at the next national elections (particularly if they are held in early summer) many of the two million independent votes which they received at the last national election.

EASTERN EUROPE

Recent changes in Soviet political personnel indicates a Kremlin desire to fix administrative responsibility and speed solution of Ukrainian problems (page 4).

The Communist Party in Czechoslovakia is gradually losing ground, and, barring direct Soviet interference the country will probably emerge as a modified Socialist state friendly to but not patterned on the USSR (page 4).

The recently announced Soviet economic concessions to Poland, including a \$28,000,000 loan of gold and a reduction by one-half in Soviet demands for Polish coal, are probably designed to counter any US-UK proposals for a change, on economic grounds, in Poland's Western boundary. The USSR apparently hopes to refute expected charges that the Poles are unable to develop effectively for the benefit of the

TOP SECRET

TOP SECRET

European economy the agricultural and industrial resources of the area in question. The Soviet concessions will enable Poland to purchase vitally needed mining machinery and industrial equipment and to contribute more coal to the rest of Europe.

#### NEAR EAST-AFRICA

Qavam's position in Iran appears sufficiently strong to prevent his removal by the Shah (page 6).

#### FAR EAST

Dutch seizure of US, British and Chinese vessels for violation of NEI trade controls has brought protests which are likely to effect changes in NEI export regulations (page 7).

By mid-1947, Chiang will probably be compelled to modify his contemplated all-out military campaign against the Chinese Communists, in order to devote his efforts to the solution of an increasingly acute political and economic crisis in Nationalist China (page 8).

The position of President Soekarno of the Indonesian Republic has been strengthened by his success in enlarging the Republic's temporary Parliament despite opposition. The additional members are expected to support the desire of Soekarno's Government to sign the Dutch-Indonesian Draft Agreement (without accepting the Dutch interpretations). Statements made at the recent meeting of the Parliament emphasize deep Indonesian distrust of the Dutch, complete accord in refusing to accept Dutch interpretations of the agreement, and the determination of all groups to resist by force re-establishment of Dutch control in Republican territory. Under these circumstances, the prospects for an early peaceful settlement are becoming increasingly unfavorable.

The South Korean Interim Legislative Assembly, which was convened primarily to work out a suffrage law for the election of its successor, has under Rightist leadership assumed the role of an independent government. Having recently adopted an anti-trusteeship resolution in the name of the Korean nation, the Assembly is now considering a

TOP SECRET

TOP SECRET

draft constitution to govern the US Zone until the execution of the Moscow Decision. This draft constitution guarantees the powers of the US Commander in Korea without specifically mentioning his right to veto all legislation passed by the Assembly. The movement in favor of a draft constitution reflects the intense nationalism of the majority of Koreans, and foreshadows future clashes between the Assembly and the US Commander.

Serious riots occurred in Formosa on 28 February when the Chinese Governor General, Chen Yi, took advantage of the financial crisis in Shanghai to issue drastic decrees which further consolidated his monopoly control over the island's economy. These new regulations crystallized the long-smoldering resentment of the Formosans against Chen's arbitrary attempts to maintain the island as his personal satrapy. Responsible Formosan groups are preparing formal appeals for outside aid, and have already addressed a petition to Secretary Marshall calling for a severance of Formosa's political and economic ties with China, and a UN administration until Formosa is ready for independence.

Political tension in China's northwestern province of Sinkiang probably will be increasingly exploited by the USSR as a means of weakening the Central Government's control of the province. The leading Soviet representative there favors the withdrawal of Chinese Nationalist troops, on the grounds that this tension is being stimulated by the resentment of the Turki's and other rebelling groups against the "oppressive tactics" of local Chinese "military reactionaries." However, indications are that local Central Government representatives have been more cooperative than the dissident groups in developing the means of achieving democratic reform in Sinkiang.

In the 11 March plebiscite, the Philippine people are expected to note 3 to 1 in favor of an amendment which provides that until 1974 US citizens shall have rights equal to those of Philippine nationals in developing Philippine resources and operating public utilities. The amendment, a prerequisite to full benefits from the Philippine Trade and Rehabilitation Acts passed by the US Congress last April, has been a subject of bitter political controversy in the islands. The Roxas Administration has campaigned vigorously for the amendment which has been opposed by diverse groups on ultra-nationalist grounds as antithetic to

TOP SECRET

TOP SECRET

Philippine independence. This opposition is likely to stimulate increasing resistance to the implementation of the amendment.

#### THE AMERICAS

The announced intention of the Communist-led Colombian petroleum workers to strike against the American-owned Tropical Oil Company on 7 March represents an effort to embarrass Colombia's Government and to consolidate Communist and left-wing Liberal strength in the approaching congressional elections. In 1946, in order to appease the Communist elements, the Colombian Government exerted heavy pressure on US petroleum interests to accede to the demands of the Communist-dominated labor unions.

The ambitious nature of Argentina's industrialization program is indicated by negotiations for an exchange of Argentine wheat for Chinese iron ore. Argentina is reported to have agreed to accept existing stocks of ore (about 500,000 tons) on Hainan Island and may take the entire Hainan production for 1947 and 1948 (scheduled at 300,000 and 800,000 tons respectively). The wheat that China might receive in exchange for existing Hainan iron stocks probably would meet only about 12% of China's immediate wheat requirements.

Chile's President Gonzalez Videla is defending the Communists in his Government against growing opposition. Gonzalez's position is undoubtedly based upon a realization that the Communists, through their control of key labor unions, could paralyze the economic life of the country, if they were excluded from the Government.

TOP SECRET

TOP SECRET

GENERAL

Implications of the Anglo-French Treaty

On the eve of the Moscow Conference of Foreign Ministers, Great Britain and France have concluded a 50-year treaty of alliance. The timing of this Treaty may have been prompted in part by the hope of the smaller two of the Big Four to increase their weight at the council table, and in part by the desire of the UK to use the Anglo-French Treaty as a model for a revised Anglo-Soviet alliance. The Anglo-French Treaty is ostensibly aimed against the menace of German aggression and is similar to that which France has had with the USSR since 1944.

The Hoover report, issued last week, indicates that fear of German military aggression for generations to come will be groundless. The UN Charter already is replete with legalistic assurances against the menaces of ex-enemy states. Except in the case of France, with her traditional fear of Germany, the rush of victors to clasp hands and take vows of alliance against the emaciated German corpse cannot be accepted as wholly genuine. These treaties are not true alliances against true dangers frankly recited. They are disguised non-aggression pacts between uneasy allies, wherein the parties renounce the use of a reconstructed Germany as a possible weapon in any future war between them.

In signing the Anglo-French alliance, both powers protested that their mutual arrangements were within the "framework of collective security" provided by the UN Charter and expressed the hope that a four-power pact such as that proposed by former Secretary Byrnes would soon become an accomplished fact. The USSR, however, has manifested no enthusiasm for a four-power pact which would include the US. While welcoming a system of alliances with other European powers, the USSR wishes to be the prime guarantor of peace in Europe and to exclude the US indefinitely from participation in European affairs. Meanwhile, the superimposition of a latticework of "alliances" upon the UN Charter has been criticized by the US as indicating distrust in the efficacy of the system of collective security envisaged under UN.

TOP SECRET

TOP SECRET

WESTERN EUROPE

The British Economic Crisis

A sober appraisal of the Labor Government's recent economic White Paper, in the light of the recent coal crisis, has led the British public increasingly to recognize the uncertain prospect for the success of the Government's plan, which involves ultimately expanding UK exports to 175% of the 1938 level, while holding imports at 80-85% of pre-war levels. This recognition of these unfavorable prospects may accentuate the present "psychological weariness" of the British public, and produce serious internal political repercussions.

The unrealistic aspects of the projected export program are becoming increasingly apparent. The realization of the ultimate export goals would require a flow of British exports equivalent to one-third of the entire world export trade in 1938, and would involve 25% of the total output of British industry. Because many British industries are admittedly unable to compete in international markets, other industries would have to find foreign markets for a disproportionate percentage of their output. The plan also assumes that British industry can overcome the disadvantages of an obsolescent manufacturing plant, and low worker efficiency in some industries.

Prior to the coal crisis, British exports had risen to approximately 110% of pre-war levels. This progress occurred in a seller's market. Future British exports, on the other hand, may have to contend with nationalism, the development of local industries, and various restrictive trade practices which frequently confront an aggressive exporter.

The austere import program must find popular acceptance at a time when full employment and social redistributions have created an unprecedented cash purchasing power among large sections of a nation which has been short of consumer goods for seven years. An accentuation of the present "psychological weariness" might endanger the position of the Labor Government and cause political repercussions which would further aggravate the economic difficulties.

The coal crisis has dramatized a weakness inherent in the economic plan. By revealing the absence of any margin of safety in the coal position, it has called attention to the fact that a setback in any

TOP SECRET

TOP SECRET

phase of the plan may be equally disastrous. One immediate result of the ensuing shock has been to quiet, and to weaken the position of dissenting Laborites who have been contending that the Government has sought too close collaboration with the US. This suggests that further economic difficulties will inevitably limit British freedom of action in international affairs and require continued close integration of basic British and US policy, in view of probable British needs for continuing economic assistance from the US.

The UK will, therefore, continue to support the International Trade Organization, as a means of achieving the large increase in world trade which is so vital to the UK's economic future. The present weakness of the British economy, however, will very likely force the UK to seek an extended transitional period and to use its unfavorable balance-of-payments position to justify the utilization of escape clauses in the proposed ITO charter, and the loan agreement with the US. This weakness will also force the UK to carry out further reductions in its foreign commitments.

TOP SECRET

TOP SECRET

## EASTERN EUROPE

Significant Personnel Changes in Soviet Government

Recent changes in Soviet political personnel indicate a desire on the part of the Kremlin to clarify and strengthen administrative responsibility among Politburo members and to facilitate the solution of the pressing problems created by growing nationalism and agricultural breakdowns in the Ukraine.

The appointment of Lazar M. Kaganovich as First Secretary of the Ukrainian Communist Party surpasses in importance that of General Bulganin as Stalin's successor in the post of Minister of the Armed Forces (a change believed to have been an administrative fact for some time). Kaganovich, one of the most energetic and forceful of Soviet administrators, is expected to campaign vigorously against Ukrainian nationalism -- a matter of grave concern to the Kremlin -- and for improved agricultural production in the Ukraine. Andrei Zhdanov's resignation as Chairman of the Council of the Union is expected to leave him free for his more important duties as a member of the Politburo, the Orgburo, and the Central Committee Secretariat of the Communist Party.

Anti-Communist Trend in Czechoslovakia

The Communist Party in Czechoslovakia is gradually losing ground despite its overwhelming victory in the May 1946 elections. Barring direct Soviet interference, Czechoslovakia, because of the intense nationalism and individualism of its people, will probably emerge as a modified Socialist state friendly to but not patterned on the USSR. Particularly in the economic field, Czechoslovakia's orientation toward the West should gradually increase.

Following the country's liberation, the Czechoslovak Communist Party attained substantial popular support by avoiding an extremist position. Subsequent Communist efforts to by-pass Parliament, to widen the scope of the nationalization program, and to control the police, the army, and the press have, however, alienated many former supporters. Successful resistance by the Moderates to Communist efforts to dominate the country is demonstrated by (1) the refusal of Parliament to delegate

TOP SECRET

TOP SECRET

authority to the Cabinet; (2) the reduction of Communist control over the Secret Police; (3) the removal of Communists from many local governing bodies; and (4) the maintenance of cordial relations with the West.

The Social Democrats, upon whom the Communist Party depends for the small leftist majority in Parliament, have voted recently against the Communists on all major issues and have won decisive victories in several labor union elections. A recent split within the Czech Communist Party over the extension of State ownership of industry beyond the limits of the two-year plan indicates basic Czechoslovak opposition to Soviet regimentation.

The integration of Czechoslovakia's economy with that of the USSR and its satellites has also become increasingly difficult. The nation's two-year plan presupposed substantial imports of raw materials from the East, which, in actuality, are not being received in sufficient quantity and quality. Czechoslovakia must, therefore, make up this deficit by imports from the West which, in turn, can only be paid for by exports to free exchange countries. Barter trade with the East must, therefore, be reduced. Because the Communists bear the major responsibility for the execution of the two-year plan, they may be forced to divert trade from the East to the West rather than to jeopardize the entire nationalization program.

The Soviet attitude will, in the final analysis, determine the success of the Moderates in preventing Communist domination of Czechoslovakia. The Kremlin is aware that strong-arm methods would meet with stubborn resistance and substantially reduce the value of its most important Eastern European source of supply. The USSR, therefore, probably will avoid direct interference in Czechoslovakia's internal affairs as long as Czechoslovakia has a "friendly" Government and continues to supply the USSR with vitally needed industrial products.

TOP SECRET

TOP SECRET

## NEAR EAST-AFRICA

Shah Unlikely to Eliminate Qavam as Iran's Premier

Recurrent reports that the Shah, backed by the Army Command, is considering the dismissal of Qavam as Iran's Prime Minister indicate that the old antagonism between the two has been aggravated by Qavam's recent success in extending his control over the Government and by the Shah's obvious desire to prevent any further increase in Qavam's power.

This discord is being aggravated by continuing rivalry for control of the armed forces and by the desire of both to capitalize on their increased prestige arising from the recovery of Azerbaijan. The animosity of the Shah, whose head appears to have been turned by his new prestige, has been further aroused by the defeat in the Tehran district of all his parliamentary candidates; this district was overwhelmingly carried by Qavam-supported men.

The Shah has the support of the military leaders and can probably count on the loyalty of the Army as well as of the conservative elements. Qavam has alienated both conservatives and radicals by his undemocratic management of the elections. He must also face the criticism of both the Shah and the conservatives that a Prime Minister committed to a Soviet oil concession should not continue in office. On the other hand, his suppression of pro-Soviet organizations in Iran would make it difficult for the Shah to justify his removal. Moreover, Qavam has retained control of the Gendarmerie and the backing of the moderates. In addition to having created a strong political machine, he has gained new support among potent tribal leaders, whose hostility to the Army and the Shah is deep-seated.

In view of the large majority Qavam will hold in the new Parliament and the apparent absence of any qualified successor, the Shah is unlikely to succeed in eliminating him.

TOP SECRET

TOP SECRET

FAR EAST

Dutch Trade Regulations in the Netherlands Indies

In an effort to curb smuggling of arms into Indonesian Republican territory and unlicensed export of produce grown by Indonesians on European-owned estates in Republic-controlled areas, the Netherlands Indies Government, on 28 January, imposed a series of export-import regulations. The severely restrictive effect of these regulations on trade with the Indies has aroused opposition in the US and among British colonial authorities and Chinese trading groups in Malaya to such an extent that the regulations will have to be modified considerably in the near future.

These trade regulations require that all Netherlands Indies exports, except "native produce," be covered by export permits issued by the Director of Economic Affairs of the NEI Government. The Dutch contend that "native produce" does not include commodities such as rubber, tea, oil, quinine, sugar, fibers, and precious metals produced on European-owned estates and that such produce is stolen from those estates for sale abroad. The Dutch wish to gain control of and use the proceeds from the sale of these materials to build up foreign exchange for the rehabilitation of the Indies and to compensate the absentee owners of the estates. Indonesian authorities refuse to recognize Dutch decrees as applying to Republican ports and maintain that, as the commodities involved have been produced by Indonesian labor, they are not the property of the former owners of the estates.

In the enforcement of these decrees, Dutch naval authorities have detained and searched many British and Chinese vessels for contraband arms, munitions, or unlicensed Republican exports. The powerful groups of Chinese merchants in Singapore and the Indies have threatened a stringent boycott of all Dutch shipping in Southeast Asia. The British have protested these seizures to The Hague as a violation of international law. The US protest was brought about by the Dutch seizure of the cargo on board the ship "Martin Behrman," chartered by the US Government to the Isbrandtsen Steamship Company. The maintenance of these Dutch regulations obviously would paralyze trade with the NEI and impede the restoration of stability in Southeast Asia.

TOP SECRET

TOP SECRET

Chiang Plans for Intensified War on Chinese Communists

There are clear indications that Generalissimo Chiang Kai-shek has now decided on an all-out military campaign against the Chinese Communists to free as much of China proper as possible from their control. In Chiang's mind, this course of action appears to have considerable priority, in terms of both time and effort, over the two other major Chinese problems: economic deterioration and the reorganization of the Central Government on broader and more democratic lines.

In making this decision, the Generalissimo apparently is risking his future on a gamble that the Nationalists can quickly deprive Communist forces in North China of their present ability (1) to threaten directly major communications; (2) to saddle the Central Government with almost insupportable financial and material burdens; and (3) to aggravate political instability in Nationalist China.

Chiang's course of action, which he apparently feels must be taken despite only faint hopes of US assistance, is decidedly more risky than a similar program adopted last summer (with little success). The Chinese economy has deteriorated sharply in recent months and now functions uneasily under the "control" of Chiang's emergency economic measures; in its greatly weakened condition, the economy can hardly withstand the burden and expense of intensified warfare for more than a few months. Any prolonged delay in eliminating the Communist threat will widen the breach between the Central Government and third-party political groups; it will further shake the allegiance to the Government of those military elements from which the Kuomintang derives much of its power.

The time element, thus, is of paramount importance to the Generalissimo's military gamble. While sharp Nationalist gains can be expected in some areas, it is difficult to foresee any conclusive Nationalist victory. Shortages of such key items as ammunition and spare parts will assume increasing importance as Nationalist forces attempt to seize and maintain the military initiative.

The present outlook is that by mid-1947, at the latest, the Generalissimo will be compelled to adopt a less ambitious program. He probably will be forced to concentrate Nationalist military strength along some of

TOP SECRET

**TOP SECRET**

the key North China rail lines and to assume a defensive attitude in other areas of conflict, in order to devote his efforts to the solution of a political and economic crisis which, as a result of the failure of his military program, will be even more acute than it is at present.

**TOP SECRET**

38

88 FEB 1947

TOP SECRET

37

## C O N T E N T S

	Pages
<b>TRENDS IN BRIEF .....</b>	<b>i - iii</b>
<b>GENERAL</b>	
<b>Communist Infiltration of UNESCO .....</b>	<b>1</b>
<b>WESTERN EUROPE</b>	
<b>New French Price Reduction Decree .....</b>	<b>2</b>
<b>Spanish Government-in-Exile Exhibits Flexibility .....</b>	<b>2</b>
<b>EASTERN EUROPE</b>	
<b>Soviet Concern over British Labor Party Policies .....</b>	<b>3</b>
<b>Soviet Budget for 1947 .....</b>	<b>3</b>
<b>The Greek Crisis .....</b>	<b>5</b>
<b>Tito Asks Opposition to Join Yugoslav Government .....</b>	<b>6</b>
<b>NEAR EAST-AFRICA</b>	
<b>Air Communications to Improve Afghan Accessibility .....</b>	<b>7</b>
<b>THE AMERICAS</b>	
<b>Movement of European Emigrants to Latin America .....</b>	<b>8</b>
<b>Revolutionary Trends in Venezuela .....</b>	<b>9</b>

37

Document No.			
NO CHANGE in Class. <input type="checkbox"/>			
X DECLASSIFIED			
Class. CHANGED TO: TS S C			
DDA Memo, 4 Apr 77			
Auth: DDA REG. 77/1763			
Date:	27/1/78	By:	023

TOP SECRET

TOP SECRET

T R E N D S I N B R I E F

GENERAL

Efforts to use UNESCO as a screen for activities of Communists and fellow travelers is further indicated by moves for collaboration between UNESCO and certain Communist "front" international groups (page 1).

WESTERN EUROPE

France's second price reduction decree is endangered by mounting demands of the rank and file of labor for wage increases (page 2).

The Spanish Government-in-Exile is demonstrating greater flexibility than its predecessor in attempting to replace the Franco regime (page 2).

Italian political stability may be adversely affected by increasing scarcity of food, especially wheat, which has already caused reduction in the pasta ration. The scarcity probably will be exploited by extremists to discredit De Gasperi and his Party, and place both at a disadvantage if the national election is held in June rather than in the fall, when additional food supplies may be available.

EASTERN EUROPE

The USSR's concern over the UK Labor Party's ability to compete for leadership of the European proletariat is indicated in recent Soviet propaganda (page 3).

The USSR's 1947 budget characteristically conceals Soviet expenditures for military and scientific purposes (page 3).

Greece faces economic, political, and military collapse. Such a collapse would mean a revolt by the Soviet-dominated Left, with the resultant loss of Greece as a democracy of the Western type (page 5).

Tito's invitation to Yugoslav Opposition leaders to join his Government will probably not be accepted, because Tito cannot afford

TOP SECRET

TOP SECRET

to permit the free elections which the Opposition demands as a prerequisite to acceptance (page 6).

Further evidence of the Soviet Politburo's concern with the possibility of opposition from Soviet Army circles is provided by (1) the absence on Army Day in Moscow of the customary portraits of, and speeches by, Soviet military heroes; and (2) Stalin's address on that occasion emphasizing the importance of political and ideological training of military personnel.

NEAR EAST-AFRICA

The pending establishment of an Afghan airline, with connections to Iran and India, will greatly increase the accessibility of the area. Soviet participation in Afghan air operations is not imminent (page 7).

Bevin's opposition to dividing Palestine into two states, as expressed in Commons on 25 February, foreshadows possible British support in the UN for one of two plans: an independent Palestinian state in which the interests of both Arab and Jewish communities are protected; or, in the event of partition, provision for the union of the Arab section of Palestine with another Arab state (presumably Trans-jordan) to insure its survival.

Turkish participation in the Bank for Reconstruction and the International Monetary Fund created under the Bretton Woods Agreement has been authorized by the passage of a bill in the Grand National Assembly. This action will eventually permit Turkey to seek foreign credits for the purchase of machinery and supplies urgently needed to implement the Government's projects of reconstruction and industrial development.

The situation in Western Azerbaijan has become increasingly explosive as a result of clashes between Iranian Kurdish elements and Government forces, which are moving against the Barzani Kurds near the Iraq border, as well as fresh indications that other tribes will come to the assistance of the Barzanis if the Iranian Army attempts to disarm them. (See Weekly Summary of 21 February, page 7.)

TOP SECRET

THE AMERICAS

The present slow progress of European emigration to Latin America will not materially alleviate the current DP problem in Europe, although a large number of workers may ultimately emigrate to Argentina, Brazil, Venezuela, and Peru (page 8).

A serious revolt in Venezuela under the leadership of ex-President Lopez Contreras, may break out in the near future (page 9).

The possibility of a successful revolt by the Nicaraguan opposition to the Somoza administration appears remote. Aguado, who was recently defeated in the presidential elections by Somoza's candidate, Arguello, is reliably reported to have said that the opposition has sufficient arms for a revolution and is waiting for a propitious moment to start shooting. Despite popular resentment that ballot counting under Government supervision was manipulated in Arguello's favor, Somoza should be able to check any such revolt through advance knowledge of the opposition's plans and control of Nicaragua's armed forces.

The new Mexican Government's foreign trade policy apparently will include protective tariffs and a withdrawal of governmental agencies from foreign trade in agricultural commodities. It is expected that, in order to become more self-sufficient and to conserve foreign exchange for the importation of equipment for the industrialization and irrigation programs, there will be increases in import duties on consumer goods other than foods.

The dependence of Chile's Government on Communist support has been reaffirmed by President Gonzalez Videla, as a result of the recent cabinet crisis. Although the former Chilean Foreign Minister told US Ambassador Bowers in September, 1946, that any Communist ministers Gonzalez might name would soon be forced out of the Government, there is no evidence that Gonzalez intends an early break with the three Communists now in his cabinet.

TOP SECRET

TOP SECRET

GENERAL

Communist Infiltration of UNESCO

The Communist infiltration of UNESCO (see CIG Special Evaluation No. 11 of 7 February) appears to have two main objectives: (1) to place Communists and fellow travelers in key UNESCO posts; and (2) to make public all scientific data obtained in atomic research.

It is now certain that Communist Professor Joseph Needham, the protege of Julian Huxley, Director General of UNESCO, is the principal link by which UNESCO is being drawn into collaboration with certain international Communist "front" organizations including: the World Federation of Scientific Workers, the International Council of Scientific Unions, the World Federation of Engineers, and the World Medical Association. These four organizations have been launched but recently and Needham suggested the collaboration of UNESCO with the World Federation of Engineers and the World Medical Association at a time when these organizations existed on paper only.

Professor John Desmond Bernal, the Cambridge physicist and Communist, is a vice-president of the World Federation of Scientific Workers. In his keynote speech before the British Association of Atomic Scientists, Bernal demanded complete publicity for all scientific research now held secret by military security, and urged that action to this end be taken before the UN Security Council. He declared that the imposition of secrecy on scientists was evidence of preparation for another world war.

Such developments enable the USSR, which is not yet a member of UNESCO, to obtain some of the advantages of membership without assuming the responsibilities and financial burdens.

TOP SECRET

TOP SECRET

## WESTERN EUROPE

New French Price Reduction Decree

In promulgating its second basic price reduction decree, the French Government acknowledges that profit margins will be further reduced and that in some instances business will operate at a loss. This new decree is announced on the eve of a Cabinet decision regarding wage demands. In acknowledging the adverse effect of the decree upon profits, the Government is undoubtedly attempting to gain support in its efforts to forestall wage increases at this time in the hope that by summer an increase in industrial production and the seasonal improvement in the food supply will stabilize the situation. Although, for the moment, the CGT (General Federation of Labor) leadership is apparently willing to support the Government's wage policy, mounting demands for increases among the rank and file of labor may force the hands of the leaders and upset the Government's attempt to hold the wage line while reducing prices.

Spanish Government-in-Exile Exhibits Flexibility

The Llopis Cabinet is demonstrating greater flexibility than its predecessor by not insisting that the Spanish Government-in-Exile, because it was created in accordance with the Constitution of the Spanish Republic, should be recognized by foreign powers and restored as the legitimate Spanish Government. Llopis believes that Franco should be succeeded by an interim government which will hold elections; he opposes the establishment of any non-Republican government in Spain prior to those elections. The political groups which favor restoring the Republic will offer to head the interim Government. Llopis himself appears to be making indirect bids for Monarchist collaboration and perhaps participation in such an interim Government. He has told UK representatives, in touch with the Monarchists, that his adherents may make contact with Monarchist forces but that his Government will make no official overtures.

TOP SECRET

TOP SECRET

EASTERN EUROPE

Soviet Concern over British Labor Party Policies

An article in Pravda of 17 February attacked the British Labor Party for its alleged willingness to split the unity of the working classes in order to insure British political and economic influence in Europe. This article reflects the jealous concern with which the Kremlin views any competition for the leadership of the world proletariat. The Kremlin fears that an extension of British labor influence might lead the Socialist parties in Eastern Europe to revolt against Communist leadership.

In spite of failures and disappointments over the past 30 years, the Kremlin still relies greatly on the eventual mobilization of world Socialism to advance the expansion of Communism. This has been particularly evident during the past year, in which the USSR has sought to weld all Socialist groups in Europe into Communist-dominated "fronts", an attempt which has generally succeeded in Eastern Europe but failed in the west.

The actual schism between Communists and Socialists has existed since World War I; the Pravda article is a tacit recognition of the British Labor Party's potential leadership of moderate Socialism and shows clearly that the Kremlin recognizes the inherent threat to its position.

Soviet propaganda may be expected to intensify its efforts to picture the British Labor Party as a vassal of British imperialism. Should a revision of the Anglo-Soviet Treaty be agreed upon, the Kremlin's propaganda machine may try to interpret it to the European working class as a repudiation by the British Labor Party of any aspirations to leadership of European Socialism.

Soviet Budget for 1947

The 1947 Soviet budget was announced before the Supreme Soviet on 20 February. The major categories (in billions of rubles), together with corresponding figures for 1946, are as follows:

TOP SECRET

## TOP SECRET

	<u>1946</u>	<u>1947</u>
National Economy	102.2	131.8
National Defense	72.2	67
Scientific Research	5	6.5

Official Soviet propaganda emphasizes the reduction of the arms budget and points out that the national defense appropriation represents only 18% of the total budget expenditure in contrast to 35% for national economy and 29% for social-cultural purposes. It should be noted, however, that probably the major purpose of Soviet budgetary announcements is to serve the official propaganda line. Because of this, and of the Kremlin's virtually unlimited opportunity to distort and conceal the true nature of government expenditure, the recently-published figures throw very little light on the actual facts of Soviet finance.

This obscurity prevails especially with regard to military expenditures. For example, the military budget does not cover the numerous military and quasi-military functions of the MVD (Soviet Secret Police), the extensive military construction work done by political prisoners, the development of new weapons by industrial enterprises, or the contributions of the Union Republics to military funds. The national defense appropriation, therefore, provides for little more than maintenance of Soviet troops and compensations and gratuities to members of the Armed Forces.

The increased allotment for scientific research probably includes only a part of the atomic program. The increased amount devoted to heavy industry in the national economy appropriation--75% of the total allotment for 1947 as opposed to 58% in 1946--may disguise the major phases of an atomic development program. The breakdown of appropriations as published leaves 45.1 billion rubles unaccounted for--a sum sufficient to cover a large atomic project or other secret activities.

The above evidence points to the desire of the Soviet Government to improve the basic military-economic potential of the USSR, which is currently handicapped by limited industrial capacity and by the lack of an atomic weapon. Under present circumstances, the USSR has no need for mass land armies such as those which fought in World War II. The

TOP SECRET

maintenance of such a force now, moreover, would severely strain Soviet resources of materiel and manpower. It is logical, therefore, for the Kremlin to devote its attention during the next few years to cutting the number of its military personnel and diverting its efforts toward the development of an industrial base capable of supporting large armies at some future date.

### The Greek Crisis

The fate of Greece may be decided within the next few months, if not weeks. Militarily, a demoralized, under-equipped army is losing ground to guerrilla forces backed by the Soviets and their satellites. Politically, a compromise government of Rightists, through inefficiency and political narrowness, is losing what little popular confidence it once possessed. Economically, a country unreconstructed from the devastations of war, is losing its fight against starvation, inflation, and internal and external debt.

Since the liberation, two factors have saved Greece from relentless attempts by the USSR, through its satellites and local Communist elements, to dominate the country: (1) The presence of British troops; and (2) loans, including UNRRA aid, from the US and the UK. Now, in the face of an all-out Soviet effort to capitalize on the current crisis, British troops (except for a small token force) are being withdrawn, and the US and the UK are finding it increasingly difficult to obtain money to bolster Greece's economy. Because of the UK's own financial straits, economic aid from that source may cease completely.

Alone, Greece cannot save itself. Militarily, the country needs aid in the form of equipment and training. Politically, Greece's diehard politicians need to be convinced of the necessity of a housecleaning, and the prostrate Center, which traditionally includes the majority of the population, requires bolstering. Economically, it needs gifts or loans of commodities, food, foreign exchange, and gold to check inflation. Of these needs, the economic are the most vital.

If Greece withstands Soviet pressure during the next few months, and can contain the guerrillas, the Center, which is ineffectual at the moment, may become sufficiently aroused by the increasing atrocities

TOP SECRET

TOP SECRET

of the Leftists and the continued bungling of the Rightists to reorganize itself and to take control of the Government, excluding both the Right and the Left. Such a move might be led by the moderate Sophoulis or the old republican Plastiras.

Without immediate economic aid, however, there would appear to be imminent danger that the Soviet-dominated Left will seize control of the country, which would result in the loss of Greece as a democracy of the Western type.

Tito Asks Opposition to Join Yugoslav Government

Marshall Tito and members of the Yugoslav Communist Politburo, in order to give their regime a more democratic appearance, are endeavoring to persuade top Opposition leaders to join the Government. Leaders of the Serb Democrat and Croat Peasant Party--including such former members of the first Tito cabinet as Grol, Subasic, and Shutej--reportedly have been offered as many as eight ministerial posts in return for their participation. They have refused to accept the offer unless Tito agrees to form a new government and to assure an absolutely free election.

In attempting to broaden the base of his Government, Tito apparently is influenced primarily by economic considerations. He evidently desires western financial aid, including a \$68,000,000 post-UNRRA loan, to carry out his plan to industrialize the Yugoslav economy. He also wishes to gain the support of the farmers and thus remove the serious handicap to the domestic economy presented by their successful efforts to divert produce from the Government market.

While Tito obviously considers that he can permit Opposition leaders in his Government without materially weakening Communist control, he cannot risk uncontrolled elections. As the Opposition would not profit by participation without free elections, it appears unlikely that it can be persuaded to accept the Tito offer.

TOP SECRET

TOP SECRET

NEAR EAST-AFRICA

Air Communications to Improve Afghan Accessibility

The Afghan Government is ready to give final approval to the establishment of an Afghan airline, capitalized at 1.5 million dollars, to be managed and operated by the TWA, which would receive an option to acquire part ownership. The Afghans have requested a US loan of 6-7 million dollars for airport construction. Afghanistan, furthermore, has recently signed an air agreement with Iran, and has a mission in New Delhi negotiating an air agreement with India. The airline routes envisaged in these agreements will connect with the Iranian airline at Tehran and with an Indian airline at Peshawar or Karachi. In the development of these airlines, Afghanistan has observed the principle of reciprocity, as enunciated in the 1944 Chicago Convention. As long as the USSR is unwilling to make reciprocal air agreements with other countries, it is unlikely to obtain air rights in Afghanistan. Accordingly, Soviet penetration through air activities into this strategic area on the Indian border is unlikely in the near future.

TOP SECRET

TOP SECRET

## THE AMERICAS

Movement of European Emigrants to Latin America

A number of Latin American countries which lack the manpower necessary to carry out planned increases in industrial and agricultural output have announced plans for promoting immigration from Europe. Argentina, Brazil, Venezuela, and Peru have sent government commissions or officials to select immigrants considered desirable on the basis of assimilability, occupation, and ideology. Although it is estimated that Argentina now has facilities to handle no more than 25,000 immigrants a year, it has announced a program for bringing in 4,000,000 Europeans during the next 10 years. Brazil also envisages large-scale immigration, and estimates that it can receive 2,000,000 immigrants within the next 10 to 20 years. Chile has expressed interest in bringing in a limited number of technicians. Venezuela would like to bring in agricultural workers.

The following progress has been made toward implementation of announced plans: (1) on 21 February, Argentina and Italy signed an agreement by which approximately 5000 Italian workers will leave Italy for Argentina each month for an unspecified period; (2) Brazil has informed the IGCR (Intergovernmental Committee on Refugees) that it is willing to admit 1000 displaced persons and, if the experiment proves successful, to admit larger numbers at a later time; (3) on 17 February, Venezuela signed an agreement with the IGCR for the resettlement of an undetermined number of DPs. Although the authority of the Venezuelan Migration Commission has not been defined, it has estimated that 15,000 DPs could be received in 1947, 40% of whom would be destined for agricultural resettlement.

The efforts of Latin American countries and the IGCR to promote immigration and the resettlement of DPs have so far met with disappointingly small results. As serious technical, transportation, and financial difficulties must be overcome in undertaking resettlement, it appears unlikely that the progress of emigration to Latin America will be sufficiently rapid to alleviate materially the current DP problem in Europe.

TOP SECRET

TOP SECRET

Revolutionary Trends in Venezuela

Recent developments in Venezuela indicate that the Government may face a serious revolt in the near future. Supporters of conservative ex-President Lopez Contreras--including a large part of the Venezuelan army, armed groups of civilians, and Venezuelan exiles in Colombia and the Dominican Republic--have been organizing a revolutionary movement for several months. Although the Government received the overwhelming support of the people in the October 1946 elections, it has recently lost some of its popularity as a result of continued allegations of inefficiency, failure to carry out promised reforms, and disclosures that it had tortured political prisoners. In the event of revolution it can count on the loyalty of a portion of the Army (particularly in the garrisons around Caracas), on armed bands of civilian adherents, and on armed Communist groups which prefer the present Government to a conservative regime under Lopez Contreras.

A group of Army officers who participated in, or were sympathetic to, the unsuccessful December 1946 revolt probably holds the balance of power. This group, although not part of the Lopez Contreras movement, is opposed to the Government and would probably join a revolt headed by Lopez Contreras if it showed promise of success in its early phases.

The Venezuelan Government appears to have a reasonably accurate knowledge of the situation and is reported to be negotiating with the Lopez Contreras group. Such negotiations, however, are interpreted as a sign of weakness on the part of the Government and it is doubtful that Lopez Contreras would come to an agreement, if he thought that he could successfully execute the planned revolt.

TOP SECRET

38

TOP SECRET

36

## C O N T E N T S

	Pages
TRENDS IN BRIEF . . . . .	i - iv
<b>WESTERN EUROPE</b>	
General Strike Unlikely at Present in France . . . . .	1
Slow Progress on the Austrian Treaty . . . . .	1
Soviet Pressure for National German Trade Union . . . . .	2
<b>EASTERN EUROPE</b>	
Infiltration of Demobilized Soviet Troops in Occupied Areas.	4
Soviet Policy Toward Finland . . . . .	4
Bulgarian Strategy on Peace Treaty . . . . .	5
Soviet Delaying Tactics at Moscow Hinted . . . . .	6
<b>NEAR EAST-AFRICA</b>	
Insecurity in Northwestern Iran . . . . .	7
Effects of UK Decision to Refer Palestine Issue to UN. . . .	7
<b>THE AMERICAS</b>	
Chile's Political Difficulties . . . . .	9

Document No. 36NO CHANGE in Class.  DECLASSIFIED

Class. CHANGED TO: TS S C

DDA Memo, 4 Apr 77

Auth: DDA REG. 77/1763

Date: 27/1/79 By: 023

TOP SECRET

TOP SECRET

TRENDS IN BRIEF

WESTERN EUROPE

No general strike is likely in France for the present despite threatened CGT demands for higher wages. Communists and CGT leaders privately admit that they do not want overall increases but only adjustments in certain low wage brackets (page 1).

The USSR apparently desires an Austrian treaty that will provide a legal basis for future Soviet interference in Austrian affairs and is therefore unlikely to make major concessions to US-UK views for the sake of an early agreement (page 1).

The USSR seeks a national German trade union as one means of achieving ultimate Soviet domination of a united Germany (page 2).

The Soviet-sponsored Socialist Unity Party (SED) in the Soviet Zone and the Communist Party of the western zones have established a central committee in Berlin "preliminary to the formation of a unified Socialist Party for all Germany." This plan is essentially an attempt to extend the Socialist Unity party into the western zones by converting the western Communist Party into a branch of SED. As it parallels Soviet efforts to establish the Soviet-sponsored Trade Union on a national basis (see page 2), this move may be regarded as part of the long-range program by which the USSR hopes to establish its control over a united Germany.

EASTERN EUROPE

Many demobilized Soviet troops are remaining in occupied areas apparently as a part of a plan to insure Soviet control after occupation forces are withdrawn (page 4).

Soviet policy toward Finland, while simulating consideration for Finnish nationalism, has nevertheless achieved substantial penetration of the country's economy. The USSR has avoided a harsh policy toward Finland for fear of adverse repercussions in other Scandinavian countries and the West (page 4).

TOP SECRET

TOP SECRET

Bulgaria's regime plans to suppress political liberties by stressing its treaty obligations to root out fascism and minimizing similar obligations to preserve democratic rights for non-fascists (page 5).

The USSR may attempt to impede progress at the Moscow Conference by eliminating the international secretariat which has facilitated the proceedings of previous CFM conferences (page 6).

Poland's Communist-dominated regime adopted a conciliatory policy toward its internal opponents and the Western Powers following the recent elections (see Weekly Summary of 7 February, page 2), which has been exemplified by (1) the announcement that a general amnesty for political prisoners will be passed by Parliament; (2) failure to retaliate against strong anti-Government statements in Parliament and the press by Opposition leaders; (3) an expressed desire to reach a working agreement with the Catholic Church; (4) failure to liquidate either Mikolajczyk or his Peasant Party; and (5) a new attitude of cordiality and helpfulness to the US and UK Embassies. The change in policy, however, is merely a tactical maneuver and does not reflect any ideological about-face nor a desire on the part of Communist elements for permanent friendlier relations with the West.

#### NEAR EAST-AFRICA

Continuing insecurity in northwestern Iran bordering the USSR may provide the Soviets with further opportunities to interfere in Iranian affairs (page 7).

The Arabs have the initial advantage in the UK's decision to submit the Palestine issue to the UN (page 7).

#### FAR EAST

A thorough Cabinet shakeup is expected in Siam following the return of elder statesman Pridi Phanomyong from a world tour about 21 February. The recent resignation of the Foreign Minister, in protest against the numerous commercial involvements of other Cabinet members has weakened the position of the Government and emphasized the prevalent discontent with widespread official corruption. Pridi, who

TOP SECRET

## TOP SECRET

virtually controls all political activity in Siam, is expected to force the removal of the present Premier, and to form a new government from members of the two parties now represented in the Cabinet. The new Government is expected to employ stronger measures to improve rice distribution and regulate governmental commercial dealings.

## THE AMERICAS

Serious political difficulties in Chile are expected in the near future as a result of basic antagonisms within the present Cabinet (page 9).

Argentine recognition of Soviet jurisdiction over Baltic nationals in the Argentine is reported to have been accorded secretly in December 1948. At that time the diplomatic representatives of Estonia, Latvia, and Lithuania were advised by the Argentine Foreign Office that documents relating to the affairs of their nationals resident in Argentina would be recognized by Argentina only if signed by Soviet Embassy officials. This action was requested by the USSR presumably as a part of a larger plan to gain control over a substantial Slavic minority in the River Plate area. Argentina presumably acceded to this request as a part of its policy of playing off the USSR against the US.

Bolivia's two presidential candidates apparently have agreed to resolve the country's indecisive 5 January election and avoid congressional delay in selecting the new President by Guachalla's withdrawal in favor of Herzog (who polled the greater number of votes), and the formation of a coalition Cabinet which will follow a bi-partisan program.

The transition of Brazil's political system from the Vargas authoritarian regime to the democratic Government of President Dutra appears to have been concluded by the 19 January elections for state governors and legislatures. Returns now available indicate that the power of government has been returned to the people -- without the violence frequently accompanying changes of government in Latin America and without controlled or fraudulent voting. Although the major opposition party gained in strength, the election has benefitted the Dutra administration in that (1) the Communist Party did not make the expected gains, (2) the Vargas-sponsored Labor Party was defeated

TOP SECRET

at all important points, and (3) the general public has been reassured regarding the sincerity of the Government's democratic orientation by the free and orderly manner in which the elections were conducted.

TOP SECRET

TOP SECRET

WESTERN EUROPE

General Strike Unlikely at Present in France

Although the CGT (General Confederation of Labor) threatens to demand an increased minimum wage, and public employees continue their insistence on a revision of present wage standards, a general strike in France is unlikely at this time.

The Communists, who control the CGT and thus a majority of French workers, publicly support the Government's wage stabilization program and are cooperating satisfactorily in Cabinet deliberations. Privately, both CGT and Communist leaders admit that they do not actually desire an overall wage increase, but simply increases in certain lower wage brackets where the present minimum is disproportionately low. Though the Communist press is engaging in desultory sniping at the Government's program, the Communists do not wish to risk being blamed for any interruption of industrial production which would seriously compromise French economic recovery. The Kremlin, moreover, seems anxious to avoid any serious disorders in France prior to the Moscow Conference.

The only current strike of any importance is that of the Paris newspaper pressmen, who are among the highest paid workers in France. The Communists have openly denounced it as the work of "Trotskyites." The four-hour protest strike on 14 February by public employees, including the Paris police, was undoubtedly inspired by the Communists, but seems to have been intended primarily as a show of force and a warning to the Government to take more vigorous measures to raise the living standards of organized labor.

Slow Progress on the Austrian Treaty

Progress on the Austrian treaty draft continues at a slow pace. It is clear that Soviet Delegate Gusev has not been authorized to negotiate on important issues, and that the Deputies will be unable to make any significant progress prior to the convening of the Moscow conference.

TOP SECRET

TOP SECRET

The USSR wants a treaty which imposes maximum restrictions on the sovereignty of the Austrian Government and provides a legal basis for future Soviet interference in Austrian affairs. It also wants to obtain recognition of its ownership of the German assets in Austria which it has seized as reparations. In order to realize these objectives, the USSR (1) has demanded the inclusion in the treaty of military and air clauses even more restrictive than those written into the satellite treaties; (2) has attempted to insert broad restrictions, subject to varying interpretations, which would provide a basis for subsequent Soviet interference in Austria; and (3) insists upon the settlement of the German assets question on the basis of bilateral negotiations with the Austrian Government.

The task of writing the final treaty in Moscow is expected to be difficult in view of the fundamental differences between the Soviet view on the one hand and the US-UK view on the other. Because of the strong anti-Communist complexion of the Austrian Government, the USSR would probably prefer a protracted military occupation to the conclusion of a treaty which failed to meet its requirements. The Kremlin, therefore, is unlikely to make major concessions for the sake of an early agreement; it will probably hold out for a treaty which will permit it to maintain control of the Austrian economy and to exert a continuing political influence on the Government.

#### Soviet Pressure for National German Trade Union

The USSR is attempting to establish a national trade union under its control in Germany as one means of achieving ultimate domination of the country. The USSR is preparing the Free German Trade Union League (FDGB) for this purpose and is making every effort to insure its continuing direction of the FDGB through Communist members of the Socialist Unity Party (SED). Though Soviet representatives on the Berlin Kommandatura have, under US-UK pressure, modified electoral procedures in the FDGB designed to perpetuate SED control over the Union, the USSR appears still to be in a position to assure Communist domination.

This situation has significant implications as the FDGB controls the civil service and thus is in a position indirectly to influence the

TOP SECRET

TOP SECRET

conduct of Berlin's municipal affairs. Thus, by exploiting the Union's powers, the USSR has been able to compensate for the defeat of the SED in the October 1946 elections and for the consequent loss of direct political control.

With the approach of the Council of Foreign Ministers session in Moscow, Soviet propagandists are attempting to persuade German as well as Western opinion of the need for a national trade union organization. They are contending that unification of all trade unions in Germany is as essential to the country's economic well-being as a centralized political government and are charging that the occupying powers in the western zones have "lamentably neglected" trade unions.

TOP SECRET

## EASTERN EUROPE

### Infiltration of Demobilized Soviet Troops in Occupied Areas

A series of recent reports indicate that a substantial number of demobilized Soviet occupation troops, rather than returning to the USSR, are remaining in occupied areas.

Some of the demobilized soldiers are being put to work in Soviet-controlled industry in Austria and Germany, or in local industry in Poland and Czechoslovakia. Others have been settled on farms in Germany, Austria, and the Balkans. Substantial numbers have transferred to the armies or police forces of the satellite nations, especially of Poland. In Bulgaria, increasing numbers of Soviet troops are changing to civilian clothes, and a large influx of MVD (Soviet Security Police) personnel is reported. In Austria, 3,000 troops recently transferred from the Soviet Army to the MVD.

The foregoing measures appear to be part of a plan to insure Soviet control over the areas in question after the withdrawal of the USSR's occupation forces. The increasing number of MVD personnel in evidence in Soviet-dominated territory, coupled with the reported visit which Marshal Beria recently made to Berlin, suggests that the MVD may assume responsibility for the plan's execution. While it is unlikely that the MVD will officially take over as the agency in charge of occupation, the increased scale of its participation indicates that it may be preparing the ground for covert activity after the withdrawal of all uniformed army and MVD personnel.

### Soviet Policy Toward Finland

Although the ultimate Soviet objectives in all bordering countries are control of economic resources, a "friendly government" and protection from military aggression, Soviet methods in Finland have differed sharply from those employed with the Eastern European satellites. Apparently aware of Finland's deep-seated hostility, the USSR has simulated consideration for Finnish nationalism and has used persuasion rather than force to gain Finnish compliance with Soviet aims. The Soviets, furthermore, feared that a harsh policy in Finland would have adverse repercussions in other Scandinavian countries and in the

TOP SECRET

TOP SECRET

West, where there is greater respect and sympathy for Finland than for the countries of Eastern Europe.

In the recent agreement on disposition of German assets in Finland, the USSR attained effective domination while appearing "reasonable" and "conciliatory." Initially, the Soviets suggested that the Finns turn over to them half of the German assets (due the USSR under Potsdam) in the form of investments in Finnish industry. Eventual Soviet acceptance of Finnish offers of outright payments of goods and services created the impression in Finland, and elsewhere, that the USSR was showing marked consideration for Finnish independence. Actually the USSR, without injuring Finnish pride by creating joint stock companies (as was done in Hungary and Rumania), substantially increased their economic penetration of the country. In the light of this agreement, a subsequent Soviet decision to cancel the 57 million mark penalty for failure to meet second year reparation payments represented only a minor concession, particularly because payment of this penalty would have endangered Finland's financial stability and might have jeopardized the entire reparations program.

Soviet policy toward the Aaland Islands (between Finland and Sweden)--while superficially indicative of Soviet respect for Finnish independence--lays a basis for further penetration. At Soviet insistence, the Peace Treaty with Finland provides that the Aaland Islands shall remain demilitarized "in accordance with the situation as at present existing." The Soviets interpret the "existing" situation as referring to a 1940 bilateral agreement with Finland rather than to the 1921 League agreement to which the USSR was not a party. The implication is that the bilateral agreement will not prove as serious an obstacle as the international accord to possible future Soviet designs for joint Soviet-Finnish militarization of the islands.

#### Bulgarian Strategy on Peace Treaty

The reaction of the Bulgarian Government to its recent recognition by the UK reveals an impending conflict between US-UK and Soviet-Bulgarian interpretation of Articles 2 and 4 of the Bulgarian Peace Treaty. Article 2 refers to the preservation of democratic rights for all non-fascist groups, while Article 4 imposes on Bulgaria the obligation to "destroy all fascist political and military organizations

TOP SECRET

TOP SECRET

within her territory." Bulgaria's reply to the British recognition note paid lip service only to the British stipulation that Bulgaria's regard for Article 2 would determine the future British attitude toward the Dimitrov Government, but took pains to point out that Article 4 would be rigorously enforced. Meanwhile, the Dimitrov Government is continuing its attacks against the Opposition, despite spasmodic conciliatory gestures. Evidence increases that revelations obtained during the recent "Neutral Officers" trial (see Weekly Summary of 7 February, page 1) will be used to prove that leaders of the Opposition must be tried as "fascists" under the terms of Article 4 of the Treaty, and conversely do not deserve special consideration under the terms of Article 2. The Soviets and the Bulgarian Government will, therefore, probably rely on Article 4 to thwart Western efforts to maintain some modicum of political liberty for the Bulgarian people.

#### Soviet Delaying Tactics at Moscow Hinted

In proposing routines for handling the secretarial work of the forthcoming Council of Foreign Ministers in Moscow, the USSR has intimated that "it might not be necessary" to bring the usual international secretariat to Moscow and that it might be replaced by a group formed on the spot from members of the four delegations. The US, UK, and French delegations would be placed at a serious disadvantage, if they were obliged to do without the experienced international secretariat which has hitherto operated successfully for the Council of Foreign Ministers. The loss of such a valuable adjunct to the work of the conference would be felt primarily by the visiting delegations, as the entire facilities of the Soviet Foreign Office will be available to the Soviet delegation.

This suggestion is consistent with the delaying tactics pursued by the USSR in the recent Deputies' conference in London and would indicate that the USSR intends to protract the negotiations on the German and Austrian Treaties in the hope of forcing acceptance of Soviet terms.

TOP SECRET

TOP SECRET

## NEAR EAST-AFRICA

Insecurity in Northwestern Iran

Continuing insecurity in northwestern Iran may provide fresh opportunities for the USSR to interfere in Iranian affairs. This insecurity is attributable, in the first instance, to the failure of the Central Government to restore order in Azerbaijan following the collapse last December of the local "Democratic" government, which was, in effect, a police regime, and secondly, to the problems created by 10,000 Barzani Kurds who fled to northwestern Iran from Iraq in 1945 under their pro-Soviet leader, Mulla Mustafa.

In Azerbaijan, the Central Government has been unable to suppress wide-scale looting and pillaging (including attacks on Christian villages), and has not succeeded in stamping out corruption in the local government. Furthermore, serious disturbances are to be expected when the Government proceeds with its program of disarming native tribes in the Province.

With regard to the Barzani Kurds, the Iranian Government has announced that if they remain in Iran, they must surrender their arms (some 3,000 rifles) by 20 February. The Barzanis are unwilling to comply with this ultimatum and have declared that they will return to Iraq on 19 February and will fight if Iraq authorities implement their plan to send the army against the Barzanis for the purpose of capturing and hanging their leaders.

An attempt by the Barzanis to return to Iraq may result in border skirmishes and also may lead to friction between Tehran and Baghdad because of Iran's failure to disarm the tribesmen. Moreover, any action against the Barzanis might well create repercussions among other Kurdish tribes, thereby increasing the instability in the area that borders the USSR.

Effects of UK Decision to Refer Palestine Issue to UN

The decision by the UK (following the failure of the London talks) to refer the Palestine problem to the UN emphasizes the Government's belief that the conflicting demands of the Arabs and the Jews

TOP SECRET

TOP SECRET

cannot be reconciled by Britain alone. It also underlines the UK's unwillingness to carry indefinitely the burden of maintaining peace in Palestine. As no solution of the problem can satisfy both Jews and Arabs, the British are transferring to the UN the onus of making and enforcing an inevitably unsatisfactory decision.

The British decision to present the issue to the General Assembly in September rather than to the newly formed Trusteeship Council at an earlier date indicates that the British feel able to maintain the status quo in Palestine until the UN reaches a solution. It is probable that the Arab League will anticipate any British move by presenting its own appeal to the UN. With official representation in the General Assembly, the Arab states will have a definite advantage over the Jews in winning support for their demands.

Most Jews appear to side with Jewish Agency leaders who probably prefer to deal directly with the British rather than submit the issue to the UN. The Jews have no official representation in the UN, and they will also be faced with the difficulty of trying to win a favorable decision from fifty-five nations instead of from one. Now that an appeal to the UN is certain, the Jews will continue their efforts during the interim to persuade the British to administer Palestine on the basis of the pre-1939 Mandate without the current immigration and land restrictions. Concessions of this nature would enable the Jews to strengthen their hold on Palestine, with the result that they would be well entrenched by the time the UN announced its solution -- probably a year hence.

TOP SECRET

TOP SECRET

THE AMERICAS

Chile's Political Difficulties

Basic antagonisms within President Gonzalez Videla's Cabinet -- composed of Communists, Radicals (left of center), and Liberals (conservative) -- recently produced a temporary political crisis and will probably cause more serious political difficulties in the near future. The recent crisis appears to have arisen from an unsuccessful attempt to force the Communists from the Cabinet. Gonzalez Videla, in an effort to avoid further conflicts, has established a coordinating committee composed of the heads of all three parties to study legislative matters prior to their submission to Congress. Although this step may improve the situation temporarily, the tripartite government is recognized by many Chileans as a failure because it has been unable to take decisive action to stabilize the chaotic economic and social conditions. Government-sponsored measures designed to improve these conditions, such as the Argentine-Chilean trade agreement and the Farm Unionization Bill, are the subject of bitter controversy in the Legislature and may provide the spark that will touch off a serious political crisis.

TOP SECRET

38

14 FEB 1947

TOP SECRET

35

## C O N T E N T S

	Pages
TRENDS IN BRIEF .....	1
<b>GENERAL</b>	
Soviet Strategy on Disarmament Commission .....	1
<b>WESTERN EUROPE</b>	
New Spanish "Government" in Exile .....	2
<b>EASTERN EUROPE</b>	
Soviet Demobilization .....	3
Rumania's Food Crisis .....	3
Soviet Arms in Germany .....	4
<b>NEAR EAST-AFRICA</b>	
British Proposals on Palestine Opposed by Arabs and Jews ..	6
Position of Constituent Assembly Strengthened in India ..	7
Issue of Greater Syria Raised Again .....	7
<b>FAR EAST</b>	
Possibility of Resumed French Negotiations with Vietnam ..	9
Indonesian Reaction to Dutch Interpretations of Agreement..	10
Chinese Government Appeals for Economic Aid .....	10
<b>THE AMERICAS</b>	
Argentina Advertises Industrial Growth .....	13

35

Document No. \_\_\_\_\_  
 NO CHANGE in Class.  \_\_\_\_\_  
 DECLASSIFIED  
 Class. CHANGED TO: TS    S    C  
 DDA Memo, 4 Apr 77  
 Auth: DDA REG. 77/1763  
 Date: 27/1/79 By: 523

TOP SECRET

38

35

TOP SECRET

## TRENDS IN BRIEF

## GENERAL

A Soviet plan to extract atomic bomb data by using the projected disarmament commission is suspected by many members of the Security Council because of Gromyko's refusal to agree that the Commission shall not have cognizance of atomic matters (page 1).

## WESTERN EUROPE

The new Spanish Cabinet in exile reflects more closely than its predecessor those elements of the Left Opposition in Spain which are inclined to seek a compromise agreement with the Right Opposition to Franco (page 2).

Italy's Constituent Assembly is expected to ratify the Italian Treaty, which was signed by the De Gasperi Government on 10 February, despite strong opposition to ratification within the Assembly. The substantial advantages accruing to Italy particularly in the economic sphere from ratification presumably will enable De Gasperi eventually to obtain a favorable vote. (The Treaty becomes operative upon ratification by the US, UK, USSR, and France, regardless of the action taken by the Italian Assembly.)

Although the serious coal crisis in England will reduce the domestic prestige of the Labor Government and administer a temporary setback to its production and export drive, the Government will not fall. The crisis may assist the Government in its attempts to prod labor to greater effort.

The French winter wheat crop has been 65% destroyed, according to French estimates, by the severe winter weather. This crop normally met about 95% of the annual wheat requirements of metropolitan France. In most parts of France winter wheat cannot safely be sown after 25 February, yet continued freezing has so far prevented any replanting, even of spring wheat or alternative fall varieties. If these estimates are correct, a wheat shortage can be expected which would contribute to political and economic instability in France for months to come.

- 1 -

TOP SECRET

TOP SECRET

## EASTERN EUROPE

The fifth phase of Soviet demobilization will reduce the total strength of Soviet armed forces to approximately 3,750,000 by mid-1947, and will release some 500,000 men who would be potentially available for industry and agriculture (page 3).

Popular discontent in Rumania over the extreme food shortage and the near economic collapse of the country may soon reach a point where only the continued presence of Soviet troops can maintain the Communist-dominated Government. The Government's deliberate failure to cope with the problem indicates its desire to use possible food riots to tighten its police control over the country and to discredit the Western Powers for their failure to supply relief (page 3).

The USSR will probably make concessions on Germany's political structure in order to obtain reparations from the western zone and a continuing voice in the political and economic affairs of a united Germany (page 4).

Continued emphasis on Greece's internal affairs by the Soviet member of the SC Investigating Commission, and by satellite liaison officers, suggests that the Soviets will protest--or even veto--any findings of the Commission which do not condemn the "monarcho-fascist" Greek Government.

## NEAR EAST-AFRICA

Britain's latest proposals for a solution to the Palestine problem have proved unacceptable to both Arabs and Jews. Though neither group has yet indicated complete opposition to further negotiation, it is likely that no progress will be made on the issue prior to its submission to the UN in September (page 6).

Probable participation in the Constituent Assembly by the Indian Princes has strengthened the position of the Assembly. It is also possible that the British may be willing to accept a constitution framed by the Assembly for those areas represented in that body (page 7).

The issue of Greater Syria has been raised again, but opposition to the plan indicates that its implementation is not an immediate probability (page 7).

- ii -  
TOP SECRET

TOP SECRET

FAR EAST

A more conciliatory French policy toward Vietnam is suggested by the recall of Admiral D'Argenlieu from Indochina. Negotiations may be resumed with Ho Chi Minh but are not expected to modify the outstanding issues in Indochina (page 9).

Indonesian rejection of Dutch interpretations of the Agreement of 15 November 1946 has created an impasse which seriously diminishes the prospects of final settlement and which has caused the Republican Army commander to prepare for a campaign of destruction and sabotage (page 10).

The Chinese Government, faced with a serious economic situation which it is incapable of solving without foreign aid, is requesting an immediate loan from the US and a commitment for substantial future aid as soon as the Chinese Government has been reorganized. It has not made clear what the reorganization will mean in substance (page 10).

THE AMERICAS

Argentina's effort to advertise its industrial strength through a "goodwill" mission touring Latin America emphasizes the seriousness of the Argentine Government's intention to expand its influence throughout Latin America and the degree to which the Government is cooperating with Argentine industry (page 13).

- iii -  
TOP SECRET

TOP SECRET

GENERAL

Soviet Strategy on Disarmament Commission

In the search for a compromise on disarmament procedure, the US has indicated its willingness to go along with the USSR in setting up a Commission "to formulate practical measures for the general regulation and reduction of armaments," provided that the Commission's terms of reference should unequivocally exclude jurisdiction over all matters within the competence of the Atomic Energy Commission. Soviet Delegate Gromyko has flatly refused to agree to such a proviso. In so doing, he has raised suspicion in the minds of the majority of the Security Council that the USSR actually seeks to use the projected Commission to extract information on the atomic bomb. When put to vote, the exclusion proviso was adopted 9-0, the USSR and Poland abstaining. While the conferences have failed to resolve the impasse between the USSR and the US, they have enabled the US to regain the support of the majority of the SC members in its fight for the uninterrupted work of the Atomic Energy Commission.

TOP SECRET

TOP SECRET

WESTERN EUROPE

New Spanish "Government" in Exile

The new Spanish Republican "Government" formed by Rodolfo Llopis--a Socialist relatively little-known in Spain--reflects the ascendancy, in the Left Opposition to Franco, of the Socialist Party and the two trade unions: the Socialist General Workers Union (UGT) and the anarcho-syndicalist National Confederation of Labor (CNT). These forces caused the collapse of the Giral Coalition Cabinet, which was largely controlled by Republicans. Both major Republican parties and the Communists have felt it necessary to join the new Cabinet. Communist participation appears to be an admission of relative present weakness, as the Socialist leaders of the new Cabinet have bitterly opposed Communist efforts to gain control of the UGT and the working classes.

The Llopis Cabinet appears better suited than its predecessor to work out a formula of cooperation with individuals inside Spain who are discontented with Franco. Within the underground, CNT and Socialist leaders in particular have been negotiating with the liberal wing of the Right Opposition to Franco. Thus, the dominant element in the Llopis Cabinet corresponds more precisely to those groups in the Spanish Left which have shown the greatest readiness to come to terms with the Monarchs.

TOP SECRET

TOP SECRET

## EASTERN EUROPE

Soviet Demobilization

The fifth phase of Soviet demobilization will affect approximately 500,000 men -- chiefly from the classes of 1923 and 1924 -- and will be completed by June. Thus, by mid-1947, the total strength of Soviet armed forces will be approximately 3,750,000. It is believed that Soviet strength will be stabilized at or near this figure and that further demobilization, possibly in the fall of 1947, will be offset by conscripts from the class of 1929.

The principal reasons for this demobilization are believed to be the urgent need for manpower in industry and agriculture, and the lessening of Soviet military commitments as a result of peace treaties with former enemy states. At the Moscow meeting of the Council of Foreign Ministers, moreover, the Soviets will be able to point to their demobilization as concrete evidence of their good will and peaceful intentions.

Rumania's Food Crisis

Rumania's economic condition continues to deteriorate. As Bucharest's food supplies will be exhausted by 1 March, the next few months will be crucial ones for the Groza Government. The famine, originally confined to the province of Moldavia, has recently developed into a national calamity. An almost complete breakdown of transportation, a runaway inflation, severe food shortages, and continued heavy reparation payments to the USSR have accelerated the economic deterioration. Forced collection of foods from peasants, in addition to intensifying rural opposition to the Government, is meeting with little success. Popular discontent may soon reach a point where only the continued presence of Soviet troops can maintain the Government until the next harvest.

The Groza Government's handling of its request for US food relief suggests that the Communist Party's primary interest is not to relieve the suffering of the masses, but to exploit the situation for its own political advancement by using possible food riots and other violent uprisings as an excuse to tighten its police control, and by discrediting the Western Powers for their failure to come to Rumania's

TOP SECRET

TOP SECRET

aid. Despite adequate advance warning of the current economic crisis, the Government has yet to adopt a single effective measure to cope with it. Not until mid-January did it make its unreasonable request to the International Emergency Food Council for 1,000,000 tons of corn. Although the IEFC has approved shipment of 17,000 tons and is considering shipment of an additional 46,000 tons of seed grains, the US has demanded Rumanian compliance with certain stipulations before the shipments are made. The Groza Government, while agreeing to cancel all food exports, has evaded US demands that food be distributed irrespective of political consideration, that seed grain be used for seed, and that US representatives be permitted to observe the distribution of relief supplies.

The USSR, which single-handedly could rehabilitate the Rumanian economy, continues to draw upon Rumanian food supplies for its occupation troops and thus far has refused to grant a moratorium on oil reparations, thereby preventing Rumania from exporting petroleum to other countries in exchange for food. The Soviets are also using Rumania's need for economic assistance as a bargaining weapon to obtain Rumania's acceptance of Soviet demands for further penetration and control of the country's economy.

#### Soviet Aims in Germany

The forthcoming CFM meeting in Moscow will provide the Kremlin with an opportunity to choose between participating, together with the other occupying powers, in a joint administration of Germany as a whole, and being frozen out of western Germany entirely. There is little doubt that the Kremlin will choose the first of these alternatives. Such a choice will be dictated by both economic and political considerations.

Economically, the USSR is in desperate need of reparations from the western zones. The Soviet occupation already has stripped eastern Germany practically bare, and Moscow is now eager to share in the output of the Ruhr-Rhineland area, the pre-war industrial production of which exceeded that of the entire USSR.

TOP SECRET

**TOP SECRET**

Politically, the Kremlin is opposed to the kind of decentralized German administration advocated by the Western Powers. If concessions on this point are the price for Soviet access to the western zones, however, Moscow may be expected to pay such a price. Moscow is well aware that political commitments can be circumvented, just as they have been circumvented in the allied councils in Berlin and Vienna. Once they have gained a voice in the administration of all of Germany, the Soviets -- in an effort to prevent the development of an effective German democracy while occupation by the Western Powers continues, and to insure that, when the latter depart, Germany will be ripe for Soviet domination -- will adopt the usual tactics of delay, obstruction, and subversion.

**TOP SECRET**

TOP SECRET

## NEAR EAST-AFRICA

British Proposals on Palestine Opposed by Arabs and Jews

New British proposals for a solution of the Palestine problem have been rejected by both Arabs and Jews, although neither group has indicated complete opposition to further negotiation. The Cabinet plan, which envisages the establishment of an independent Palestine after five years of British direction under a UN trusteeship, satisfies no one, but it does make greater concessions to the Arabs than to the Jews.

The Morrison-Grady plan (predecessor of the Cabinet plan) proposed immediate immigration into Palestine of 100,000 Jewish refugees and the establishment of a modified form of partition, giving Arabs and Jews separate provinces controlled by a British-directed Central Government. Under the latest Cabinet proposals, the immigration of 96,000 Jews would be extended over two years, and local areas of administration would be established under the majority rule of either the Arabs or the Jews. Supreme authority in Palestine during the five-year interim UN trusteeship would be vested in the British High Commissioner, with an Advisory Council of Jewish and Arab representatives from local areas.

While the Arabs are not faced with definite partition under the new plan and would presumably still constitute a majority, they are strongly opposed to further immigration of Jews into Palestine.

From the Jewish point of view, the most objectionable features of the Cabinet plan are that: (1) Jewish areas would not necessarily be contiguous; (2) local Jews would replace the Jewish Agency as official representatives of Palestinian Jewry; and (3) the immigration of 96,000 Jews would be distributed over two years. The Cabinet plan, moreover, represents retrogression in the achievement of a national home in Palestine.

If the talks in London break down completely (which appears likely, at least as far as the Jews are concerned), the British will have no alternative but to maintain strict control in Palestine until the issue can be referred to the UN.

TOP SECRET

TOP SECRET

Position of Constituent Assembly Strengthened in India

The position of the Constituent Assembly has been strengthened by indications that the majority of the Indian Princes (including those of the influential states of Travancore, Hyderabad, and Kashmir) favor entering the Assembly regardless of participation by the Moslem League. If the Princes actually participate, the Assembly would represent 310 million of approximately 400 million Indians -- a situation which might well induce the League to make concessions.

To resolve the Congress-League impasse the British might, as a last resort, be willing to accept a constitution framed by the Assembly, but only for the areas represented in that body. Such an arrangement would not conflict with established British policy, which refuses to accept any constitution for all of India framed without the consent of such a group as the Moslem League. Adoption of a constitution which did not apply to Moslem-dominated provinces might, however, facilitate the establishment of a separate Moslem state (Pakistan) and thereby prevent a united India.

Issue of Greater Syria Raised Again

The Greater Syria plan has again been given prominence by controversial articles in the Arab press and particularly by the recently expressed fear of King Ibn Saud of Saudi Arabia that the British intend to "appoint" King Abdullah of Transjordan as ruler of Syria. It is not likely, however, that the plan will be implemented in the near future.

The plan for Greater Syria has been the subject of periodic agitation in the Arab World since 1943. In general, it provides for the unification of Syria, Iraq, Transjordan, and possibly Lebanon and the Arab portion of Palestine (in the event of partition).

The British support the plan probably because they hope to establish influence over the new unified Arab state as compensation for the anticipated loss of prestige as well as strategic bases in Egypt and Palestine. Such a unified state, extending from the Persian Gulf to the Mediterranean, might also constitute a more effective barrier to Soviet infiltration in the Near East. Even if the state is not created, the British may still see some gain in diverting Arab attention from the Palestine

TOP SECRET

TOP SECRET

dispute, and, by raising an issue over which the Arab dynasties are at odds, lessen the chances of a unified uprising by the Arabs in the event of a solution of the Palestine problem, unpalatable to them.

Among the Arab states, Iraq and Transjordan favor the plan as a means of extending their influence in the Arab World, while the Saudi Arabian-Egyptian bloc is opposed to it. King Ibn Saud's opposition springs mainly from his bitter feud with the Hashemite dynasty (represented by Abdullah of Transjordan and Feisal of Iraq). A majority of Syrians are believed to oppose the plan because it would force them to trade their republican form of government for monarchy, and their independence for a minority role in the affairs of a larger state.

TOP SECRET

TOP SECRET

FAR EAST

Possibility of Resumed French Negotiations with Vietnam

Moderation of the French position vis-a-vis Vietnam is indicated by recent trends in French policy. The change may be in preparation for resumption of negotiations with Ho Chi Minh. This modification has been caused partly by severe depletion of trained reserves in France, occupied Germany, and North Africa; by realization of the scope of military operations necessary to "moderate" Vietnam policies, and by growing French fear of the possibility of UN intervention. This trend is reflected in the recall of Admiral D'Argenlieu who represents to Vietnam the extreme French colonial point of view.

If conversations are resumed between Vietnam and the French, they will proceed under graver handicaps than have attended earlier negotiations. Mutual suspicions have been aggravated and hatreds intensified by three months of open warfare. Questions such as the limitation of military forces, withdrawals of troops to status quo ante positions, and the allocation of control over police forces and customs will be even more formidable than before the Haiphong Incident of 19 November 1946. French officials, moreover, appear to regard the Franco-Vietnam agreements of March and September 1946 as invalidated by the hostilities, hence a preliminary period for determination of new conditions for negotiations will be required before concrete issues can be discussed.

In line with its policy of disregarding earlier commitments to Vietnam, France has recently granted considerably increased powers to the Provisional Government of Cochin China, thus formalizing the position of Cochin China as a state in the Indochina Federation without referendum on the area's future status as stipulated in agreements with Vietnam. This crucial action will greatly increase Vietnam distrust of French motives and prolong the period of preliminary discussions until impatient extremists on both sides may decide to resume the bitter fighting in the hope of achieving a decision by force.

TOP SECRET

TOP SECRET

Indonesian Reaction to Dutch Interpretations of Agreement

The Indonesian Cabinet has rejected the Netherlands Government's interpretations of the Dutch-Indonesian Agreement of 15 November 1948 on the ground that the interpretations violate the agreement. While both sides have agreed on financial responsibility and other points, they disagree on the interpretations of relations between the Netherlands and Indonesian Republic in the transitional period, and on the reduction and withdrawal of Netherlands forces from Republican territory.

The Dutch interpretation provides that the transitional period between signing of the agreement and creating the United States of Indonesia shall be used to define and strengthen the bonds between the Republic and the Netherlands, with the implication that the Republic shall remain permanently within the Netherlands Union and the United States of Indonesia. The Indonesians reject this interpretation, because of the implication that the Netherlands Union and the United States of Indonesia are indissoluble. On the question of Dutch forces, the Dutch consider "at once" and "directly", as used in the agreement, to refer to the initiation of measures preparatory to the reduction and withdrawal of their forces; the Indonesians desire that "at once" be interpreted to mean the immediate reduction and withdrawals of Dutch forces.

As a result of the present impasse, the Commander in Chief of the Republican Army has alerted his forces to prepare for a campaign of destruction and sabotage. Dutch-Indonesian tension has increased and the prospects of reaching a binding settlement between the two parties have considerably diminished.

Chinese Government Appeals for Economic Aid

Since 4 February, the US Embassy in Nanking has been besieged by appeals from T.V. Soong, President of the Executive Yuan, and other Central Government officials for immediate US financial assistance to China. Soong feels that the economic and financial situation is now so desperate that, without immediate US aid, the Chinese economy will collapse, the Central Government will fall, and the Chinese Communists will then assume control. He therefore seeks (1) an immediate US credit of US \$150 million to pay for imports of cotton and wheat, and (2) an

TOP SECRET

TOP SECRET

immediate commitment from the US Government to make available to China substantial economic and technical assistance as soon as China has established a State Council and reorganized the Executive Yuan. Chiang Kai-shek supports Soong's request for US aid, but has indicated an unwillingness to consider reorganization of the Executive Yuan, where administrative power is centered.

The appeals by Soong and other Chinese officials have been dramatically accented by the panic that gripped Chinese financial markets this week. Although touched off by two specific developments -- cessation of domestic gold sales by the Central Bank of China and unfavorable public reaction to the Government's export subsidy plan announced on 5 February -- the panic grew out of the same basic factors that have driven Government officials to enter urgent pleas for US assistance.

While Soong has been showing signs of panic, and is obviously aware of the insecurity of his own position, he does not greatly exaggerate the extreme seriousness of China's economic and financial condition. Inflation in urban centers has mounted at an unprecedented rate since the end of 1946. Of equal significance is the rapid depletion of China's gold and foreign exchange resources, which will be entirely exhausted in the latter half of 1947 if the Government attempts to meet the presently estimated deficit in this year's balance of payments.

Without outside financial support, and so long as civil strife continues to disrupt communications, sap the financial strength of both Government and people, and absorb much of the nation's physical output, China's economic situation will continue to deteriorate at an accelerating pace. The Government lacks the administrative organization and powers of control to effect anything more than temporary stop-gap measures, which are subject to diminishing returns. Hardest hit will be the industrial areas, which support the smaller but more articulate and politically conscious portion of the population. It is believed that the combined effects of domestic inflation and foreign exchange bankruptcy could lead to complete, or nearly complete, industrial stagnation before the end of 1947, particularly since under existing conditions the major industrial centers are abnormally dependent upon the continuing flow of imports from abroad.

**TOP SECRET**

The effects of this situation will probably be the progressive weakening of the de facto authority of the Central Government and a revival of historic Chinese regionalism with: Government control of only the Yangtze valley, warlordism in the south and west, and greatly increased Communist power in the north.

The issue thus posed is the extent to which the US is willing to support the present Chinese government in its economic difficulties and the conditions the US will exact for that support. To date, in spite of many promises, the Chinese Government has not been reorganized, its domestic policies have not been liberalized, and it continues to attempt a military solution of the Communist problem. Soong requests an immediate US commitment for substantial support as soon as Government reorganization takes place; neither he nor the Generalissimo has made clear what the reorganization will mean in substance.

TOP SECRET

## THE AMERICAS

Argentina Advertises Industrial Growth

Senator Diego Luis Molinari, head of an Argentine "goodwill" mission which has lately visited twelve Latin American capitals, has explained to eager and attentive audiences at banquets and public ceremonies in each country that Argentina's post-war policy embraces three points: inter-American unity, encouragement of trade between Argentina and other Latin American countries, and "support of democratic ideals."

To show that Argentina means business, Molinari has revealed that Argentina proposes (1) to raise all diplomatic missions in Latin America to the rank of Embassy, (2) to set up trade organizations in each capital in Latin America to purchase local products and sell Argentine products, (3) to expand the services of the Argentine merchant fleet and the Argentine airline; and, possibly, (4) to launch an inter-American labor organization to compete with the Communist-infiltrated CTAL.

Molinari and the other members of the mission have emphasized the financial soundness of Argentina's newly developed industry, recent Argentine measures for a more equitable distribution of real income between capital and labor, and the vested interest of all Latin American countries in expanded inter-American trade and heightened inter-American solidarity. According to some reports, the mission has made pointed references to Argentina's large holdings of gold and foreign exchange, and has suggested, particularly in countries now engaged in financial negotiations with the US, that these holdings might be made available to help "sister republics" out of current fiscal difficulties.

The Molinari mission is a natural development, on the public relations side, of Argentina's current trade-treaty offensive (see Weekly Summary of 3 January), and a further indication of the Argentine Government's determination to expand its influence throughout Latin America. The trade-treaty offensive, in turn, with its emphasis upon guaranteed supplies of the raw materials required by Argentine industry and upon the opening of markets in countries whose local industry is not yet extensively developed, is the logical outcome of the main trends of recent Argentine economic history. Students have foreseen for a long

TOP SECRET

TOP SECRET

time that the post-war period would precipitate a struggle between the entrenched interests of Argentine agriculture and the war-nurtured interests of Argentine industry. Most of the major developments in recent Argentine economic policy have indicated that Argentine industry has been winning this struggle, and that the large landowners, who demand an uncontrolled capitalism that will leave them free to expand meat and wheat production to the limit, are losing ground. The trade-treaty offensive is a further victory for the industrialists.

Argentina's plans for extending its trade bloc throughout Latin America do not necessarily run afoul of the ambitions of the other Latin American countries, which, by tightening their economic ties to Argentina, to some extent strengthen their bargaining position vis-a-vis US and European exporters. Argentina can be expected to follow up the Molinari mission with negotiations designed to extend the bilateral trade agreements program to the remotest corners of Latin America.

TOP SECRET

38

34

TOP SECRET

## WEEKLY SUMMARY

## Significant Trends

Soviet Industry Shifting Eastward . . . . .	1
The Future of Bulgaria's Opposition Parties . . . .	1
Post-election Prospects in Poland . . . . .	2
Economic Difficulties of UK Labor Government . .	3
UN Border Commission Suggested for Greece. . . .	4
Possibility of Peaceful Indian Settlement Further Reduced. . . . .	5
Domestic Opposition to Burmese Agreement Possible . . . . .	6
Labor Unrest and Political Instability in Japan . .	7
Strategic Victory for Communists in Brazilian Elections . . . . .	8

34

Document No. 34  
 NO CHANGE in Class.   
 DECLASSIFIED  
 Class. CHANGED TO: TS S C  
 DDA Memo, 4 Apr 77  
 Auth: DDA REG. 77/1763  
 Date: 27-1-78 By: 013

TOP SECRET

TOP SECRET

Soviet Industry Shifting Eastward

An examination of the current Five-Year Plan reveals that in the reconstruction and development of Soviet industry the Kremlin is placing greater emphasis on the Eastern USSR than on the Soviet West and South. In 1940, for example, southern mills produced 61% of Soviet steel; their planned quota for 1950 is only 37% of the national output. In 1940, also, the USSR obtained only 37% of its coal from the East; by 1950 eastern mines are expected to contribute 47.5% of planned requirements. These statistics are supported by the personal observations of travellers, who have noted the slow pace of construction in European Russia as compared with that in Siberia and Central Asia.

For many years Moscow has emphasized the importance of developing the Soviet East, and great strides had been made in this direction before the war. German occupation of the USSR's western and southern industrial centers greatly accelerated this process, which was further expedited by the eastward evacuation of much of the Ukrainian and White Russian population. Although economic and industrial considerations have doubtless been a factor, especially in view of the natural wealth and limited transportation facilities of Siberia and Central Asia, it is probable that the plans of the Kremlin are based primarily on strategic requirements. It has been suggested from time to time, with great logic, that a major objective of Soviet military thinking is the development of an eastern economy capable of supporting, independently, large-scale military operations in Asia. The vast and remote territory east of the Urals, furthermore, is ideally suited for the concealment and defense of industrial targets.

The Future of Bulgaria's Opposition Parties

Premier Dimitrov is intensifying his campaign to liquidate the Bulgarian Opposition Parties prior to the withdrawal of Soviet occupation forces. The campaign presumably will reach its final stages following ratification of the Peace Treaty and recognition of his Government by the Big Three. This Government effort is directed principally against the 101 Opposition delegates to the Grand National assembly, who--since the purges in the Ministries, the Army, and the diplomatic corps--are the last remaining representatives in the Government of the majority of the Bulgarian people.

TOP SECRET

TOP SECRET

Dimitrov recently declared on the floor of the Assembly that "there will positively be an end to Opposition presence" in that body. Meanwhile, in order to prevent expression of Opposition opinion in the Assembly on controversial issues, Dimitrov is permitting no voting on major legislation until the treaty is signed. A basis for legal action against Opposition leaders already has been established in the current trials of Bulgarian Army officers charged with conspiring against the Government. The officers, in self-accusations reminiscent of the Moscow purge trials, have implicated the Opposition leaders as co-conspirators. The Soviet radio concurrently is attacking Opposition representatives as traitors, saboteurs, and spies. Dimitrov may be expected to exploit recognition of his Government by the Big Three as providing sanction for his measures to liquidate the opposition.

Post-Election Prospects in Poland

Although Mikolajczyk's Peasant Party suffered a crushing defeat by the Government Bloc in the 19 January Polish elections and was eliminated as an effective political force, the Communist Party has not yet achieved the dominance it considers necessary for the immediate achievement of its ends. The groups opposing complete Communist control of the country, though weakened, show no signs of capitulating to Communist domination without a struggle.

The Socialist Party, which obtained the same number of seats in the new Parliament as the Communists, will retain the Premiership. The selection of Jozef Cyrankiewicz, Secretary-General of the Party, as successor to Premier Osubka-Morawski, however, represents a clear-cut victory for the anti-Communist faction in the Party. Cyrankiewicz will probably provide stronger and more independent leadership than Osubka and his appointment indicates Socialist determination to offer firm resistance to the expected attempt by the Communists to liquidate or at least assimilate the Socialist Party.

The Government Bloc has failed in its attempt to split Mikolajczyk's Peasant Party or to intimidate Mikolajczyk into abandoning his leadership of the Opposition. Despite a double-barrelled threat by the Government that the Peasant Party would be abolished and Mikolajczyk tried for treason if the latter did not resign, Mikolajczyk has success-

TOP SECRET

TOP SECRET

fully overruled a Party faction which advocated cooperation with the Government. He has retained the undisputed leadership of the Party and has committed it to active opposition in the new Parliament.

The Government's claims--that it received Catholic support in the elections and that improvement in relations between Church and State are imminent--have been denied by leading Catholics. The latter insist that the Church does not consider the new Government representative of the will of the people. It is likely, moreover, that an early agreement will be reached between the Vatican and the Polish Government as now constituted.

Therefore, despite their "victory" at the polls, the Communists will probably proceed cautiously for the next few months, consolidating their position, and whittling at opposing elements one by one. The Government's need for Western economic assistance and concurrence in its claims to the Oder-Neisse boundary should provide a further moderating influence on Communist policy.

#### Economic Difficulties of UK Labor Government

The excellent recovery the UK has made in its export position since the close of the war is now seriously threatened by increasing tension throughout the ranks of organized labor. In meeting this labor problem, the Labor Government is currently highlighting Britain's "extremely serious" economic condition in order to impress the people with the urgency of working harder, producing more, and continuing the "austerities" of wartime.

Back of this somewhat melodramatic propaganda is the Government's realization that if it is forced to grant wage increases, shorter hours, and more goods for domestic consumption, it would be unable to restore Britain's economic health under the present program. Labor, on the other hand, desires to obtain the improved working and living conditions that it was promised during the war and which it expected to realize by electing a Labor Government.

In an attempt to forestall overt action on these growing demands, the Government has not only used the current propaganda campaign but has made continuous attempts to soften the effects of the "austerity"

TOP SECRET

TOP SECRET

program by using for example some 39% (about 190 million dollars) of its dollar expenditures in the US during July-December 1946 for movies and tobacco, as compared with 24% for food. The importation of movies and tobacco reflects a deliberate effort to keep up the morale of the people while, at the same time, affording them no relief vis-a-vis the demand for consumer goods which they must themselves produce in order to realize an improvement in their standard of living.

UN Border Commission Suggested for Greece

The members of the Security Council Investigating Commission (except the Soviet and Syrian representatives who were not present at the informal meeting) have unofficially agreed in principle to the desirability of a semi-permanent UN surveillance body in the frontier areas of Greece. The feeling that such a commission should be created is undoubtedly prompted by fear that the present SC investigation--hampered by weather, poor transportation, and delays during which significant traces of foreign interference can be hidden--probably will uncover insufficient evidence to permit effective recommendations to the SC. Even if proof of Soviet and satellite activities is established, a simple condemnation of such activities would not prevent their continuance.

The Greek Government probably would welcome the establishment of a surveillance commission provided it did not jeopardize Greek claims for border revisions. A semi-permanent commission should be able not only to put an end to much of the present violence but might also, through its extended studies and investigations, find a lasting solution to Greece's border troubles.

TOP SECRET

TOP SECRET

Possibility of Peaceful Indian Settlement Further Reduced

The categorical and unexpected refusal on 1 February of the Moslem League Working Committee to recommend League participation in the Constituent Assembly has brought negotiations for an Indian settlement to a complete standstill. The Working Committee has demanded that the British dissolve the Assembly on the ground that, as now constituted, its proceedings are illegal. Terming the purported acceptance by the Congress of the 6 December interpretation of the Cabinet Mission's Plan a "dishonest trick," the Committee maintains that the Congress attitude has destroyed any possibility of a compromise within the framework of the Plan.

The British have expressed complete surprise at the League's decision. They had clung to the hope that the way would be left open for further negotiations, but they now feel that the Moslem stand may actually foreshadow the demise of the Plan.

The factors that influenced the decision of the Working Committee are unknown at present. It is possible that while in London last December, Jinnah received a promise from representatives of the Arab States that the Moslem League's demand for the creation of an independent Indian Moslem State would be referred to the UN. It is more likely that the Working Committee's action was based on encouragement which may have been given Jinnah by the Indian Princes, who have viewed with serious misgivings their status under the proposed Union of India. The Negotiating Committees of both the Princely States and British India are scheduled to meet 8 February to discuss terms for the entrance of the States into the Union. If no agreement is reached, as is likely, and the States should then openly support the League, the Congress would find itself opposed by the controlling elements of nearly half of India. It is highly probable, however, that the Congress will continue to work for the implementation of the British Plan regardless of the action of the Moslem League or the States, and will resist any attempt to dissolve the present Constituent Assembly.

There has been no official reaction from the Congress Party or the British Government, but it is evident that the possibility for a peaceful solution of the Indian situation has reached its lowest ebb since the first announcement of the British Cabinet Mission's Plan, and that an extremely serious impasse has been created.

TOP SECRET

TOP SECRET

Domestic Opposition to Burmese Agreement Possible

Although Burmese leaders obtained a satisfactory agreement in London with respect to independence, they now face the major problems of securing popular support for the agreement reached at London and of persuading the peoples of the hill states along Burma's frontiers that they should join Burma proper.

The solution of the first problem will be dependent on Aung San's ability to convince his following that Burma's gains, while not all that were demanded, represent a satisfactory advance toward the goal of independence by 31 January 1948. Aung San faces the task of calming popular feeling which had been prepared for widespread civil disturbances in anticipation of a breakdown in the London talks.

The second problem will be complicated by Burmese and British apprehension concerning the hill states' conference to be held in February. The British expect Aung San's Anti-Fascist League to use high-pressure methods to influence the hill states. The Burmese, on the other hand, suspect that the British plan to retain control in the hill states in order to maintain bases for operations in the event of an outbreak of violence in Burma.

TOP SECRET

TOP SECRET

Labor Unrest and Political Instability in Japan

A major political and economic crisis in Japan was temporarily averted on 31 January by SCAP's declaration prohibiting a general strike and by the simultaneous announcement of the formation of a new Japanese cabinet.

Premier Yoshida was unable to persuade his strongest opponents, the Social Democrats, to participate in the "national" Government and was obliged to confine himself to reshuffling portfolios within the coalition of Liberals, Progressives, and Independents with which he had been governing Japan since May 1946. The new cabinet, admittedly a stop-gap, will have difficulty surviving until the next general elections, expected in May 1947, when the new constitution comes into effect. In spite of SCAP's intervention with respect to the general strike, labor unrest may be expected to continue. Japanese labor leaders have reportedly protested to the Allied Council against SCAF's decision.

Labor unrest and political instability reflect conditions of growing economic distress. Inflation has reached new heights, with the Bank of Japan note issue passing the 100 billion yen mark on 31 January (as against the pre-war normal of 2 billion). Industrial raw material stocks are approaching exhaustion and production is running at least 60% below pre-war levels. One of the most important factors hindering production is the uncertainty of Japanese industrialists concerning possible Allied decisions on Japanese reparations and levels of industrial production.

TOP SECRET

TOP SECRET

Strategic Victory for Communists in Brazilian Elections

Partial returns from Brazilian state elections indicate that the Communist Party has (1) made an impressive showing against opposing parties without, however, substantially increasing the half-million votes it secured in the 1945 Presidential elections, (2) won some legislative positions and given effective backing to shrewdly-selected candidates of other parties in about half of the twenty states, and (3) played an important part in defeating the efforts of the Vargas-sponsored Labor Party to achieve popular recognition as the rallying-point of anti-capitalist discontent in Brazil.

The Party, still far short of the strength required to capture the machinery of government in any of the States, has nevertheless shown that in some electoral subdivisions it can henceforth control the result in any close contest between other parties. The new governors of Sao Paulo, Minas Gerais, and Rio Grande do Sul, owe their election in large part to Communist votes. In Sao Paulo, indeed, the successful Social Progressive Party candidate for governor would not, without Communist support, even have run his opponent a close race..

The chief political result of the election, aside from the apparent setback for the Labor Party, is the consolidation of the Communist Party's leadership among the elements opposed to the allegedly inequitable structure of the Brazilian economy. The election, accordingly, emphasizes the marked difference between the situation in Brazil and that in other South American countries, where the recent trend has favored parties which, though socialist in tendency, are nevertheless pro-democratic, reformist, and without ideological commitments with regard to foreign policy.

The Brazilian Army and Brazilian conservatives in general have shown increasing dissatisfaction with President Dutra's inept handling of the Communist problem. Results of the election put them in a position to demand immediate aggressive action against the Communists. Although the large popular following of the Communist Party will probably preclude its outright suppression as being too difficult to enforce, Brazilian Conservatives will mobilize behind any other measures which will combat further growth of the Party. In any event, the menace of Communism will require a reorganization of the Government Party, which will seek to absorb other conservative elements in order to defend the status quo against the leftist groups.

TOP SECRET

38

33

TOP SECRET

W E E K L Y   S U M M A R Y

Significant Trends

Revised Estimate of Soviet Occupation Forces . . . . .	1
Anglo-Soviet Relations . . . . .	2
Soviet Tactics at London Conference . . . . .	3
Prospects of Unity Under New Greek Government . . . . .	4
Italian Cabinet Prospects . . . . .	5
Anti-Trusteeship Sentiment in South Korea . . . . .	5
FEC Fixes Japanese Standard of Living . . . . .	6

Special Articles

Soviet Policy in Terms of Leninist Doctrine. . . . .	i
Arab Nationalism in North Africa . . . . .	iii

33

Document No. \_\_\_\_\_  
NO CHANGE in Class.   
 DECLASSIFIED  
Class. CHANGED TO: TS      S      C  
DDA Memo, 4 Apr 77  
Auth: DDA REG. 77/1763  
Date: 27/1/78 By: 027

TOP SECRET

**TOP SECRET**

**Revised Estimate of Soviet Occupation Forces**

Recent evidence necessitates a revised estimate of Soviet occupation strength in certain European areas. Soviet forces in Poland appear to have been reduced sharply, minor reductions are believed to have taken place in Germany and Austria, and the estimate for Bulgaria has been raised.

It is estimated that Soviet troops in Poland recently have been reduced from 200,000 to about 120,000. Only skeleton garrisons remain in the southern and southeastern parts of the country, and forces in the central and eastern areas have been reduced materially. These reductions suggest Moscow's confidence in the ability of the Polish Government to maintain its control without the direct support of Soviet armies. The fact that most of the remaining Soviet forces are concentrated in the western and northwestern parts of the country may be caused by: (a) the use of this area as a shipping center for the supply and redeployment of occupation troops in Germany; (b) the usual Soviet concern over strategic considerations, which would dictate the maintenance of substantial forces in this area to protect the USSR's Baltic flank and to have substantial forces available for rapid deployment into Germany should the occasion demand; (c) the substantial elements of German population remaining in the area; and (d) the Kremlin's desire to retain effective control over the area until its final incorporation into Poland is assured.

In Germany, Soviet occupation forces are estimated to have been reduced recently from about 600,000 to 550,000, and in Austria from 65,000 to 63,000. The number of Soviet troops in Rumania and Hungary remains at approximately 200,000 and 55,000, respectively. While a continued gradual depletion of these forces may be expected, especially if general Soviet demobilization is resumed in the spring, no further drastic cuts are in immediate prospect.

In Bulgaria, the estimate has been raised from 120,000 to 140,000. This change, however, does not reflect the recent arrival of additional troops, but rather the acquisition of more detailed evidence on the number of troops which have been quartered there throughout the winter. It is unlikely that this figure will be reduced for some months, first, because of favorable conditions which the area offers for spring maneuvers, and second, because of the possibility that after the completion of the forthcoming CFM meeting the Kremlin may renew its psychological offensive against Turkey.

**TOP SECRET**

TOP SECRET

Anglo-Soviet Relations

Immediately following Field Marshal Montgomery's visit to the USSR, which was marked by cordiality on both sides, PRAVDA cast doubt on the sincerity of British motives in relations with the USSR by charging that Foreign Minister Bevin had repudiated the Anglo-Soviet mutual assistance pact of 1942. Bevin vigorously denied the allegation. The controversy was finally resolved through an exchange of notes between Bevin and Stalin, in which the latter ostensibly repudiated the statement of the official Communist Party newspaper.

The Soviet moves reflect the concern with which the USSR views the close association of the US and UK. These moves represent an attempt on the part of the Kremlin to isolate the US by discouraging further development of British collaboration with America, or at least to determine the extent of Anglo-US cooperation and the current attitude of the British Government toward the Soviet Union.

The Kremlin undoubtedly hoped that PRAVDA's charges would provide further ammunition for the Left-wing Laborites in their opposition to Bevin and stimulate a more "cooperative" British policy vis-a-vis the USSR.

The Soviet Union now may seek to revise the present Anglo-Soviet treaty so as to continue it in force outside the structure of the UN. (Stalin indicated the desirability of such an arrangement to Montgomery.) The Soviet purpose in any such negotiations would be to disrupt the current Anglo-US collaboration.

As previously reported, the USSR appears to be conducting a tactical retreat in its foreign policy in order to consolidate gains and to devote more time and effort to the solution of pressing internal problems. The Kremlin's current attitude on Anglo-Soviet relations shows clearly that the Soviet Union, in its diplomatic retreat, does not wish to leave behind a strong Anglo-US bloc which it would have to face when Soviet diplomacy is again on the tactical offensive.

TOP SECRET

TOP SECRET

### Soviet Tactics at London Conference

The Soviets have employed the same hard, abrasive tactics in the opening sessions of the conference of deputies to the Foreign Ministers at London, as they used in the negotiation of Italian and Balkan treaties.

The USSR is fighting for the adoption of treaty drafting procedures which (1) stress the role of the great powers in peace-making; (2) reduce the participation therein of the smaller nations to a minimum; (3) embody cumbersome inflexibility by means of which the force of Soviet obstructionism can be used to the maximum; and (4) require Four Power unanimity with the fewest possible concessions to majority opinion.

The Soviet proposals on procedure for preparing the German peace treaty implement the above objectives. Only the Big Four would "participate" in drawing up the treaty. The CFM would hear the "viewpoints" of other allied states. A conference for the "discussion" of the peace treaty would be called, but not until the peace treaty had already been drafted and a "central government" had been established in Germany "recognized as suitable" to accept such treaty. The smaller powers would thus be confronted by a virtual fait accompli.

The USSR apparently also intends to hold the achievements of the London conference of deputies to a minimum. Agreement on major issues will be deferred until the Moscow conference of the CFM in March when the Soviet diplomatic team will be playing on its home grounds. Meanwhile the USSR is making use of the London meetings for the primary purpose of scouting the plays of the Western powers, at the same time revealing as little as possible of its own position. This contention is borne out by the small size and relative mediocrity of the Soviet delegation at London. The USSR has submitted no treaty draft to the deputies of the CFM and has limited itself to criticism of the proposals of other nations. Progress at London, therefore, will be largely confined to drafting the non-controversial features of the Austrian and German treaties.

TOP SECRET

TOP SECRET

Prospects of Unity Under New Greek Government

On 24 January the new Greek Government was sworn in with all parliamentary parties participating except the Liberal Party of Sophoulis. This coalition Government controls 86% of the votes in Parliament but without Sophoulis, it remains a government of Rightist groups. Tsaldaris has been replaced as Prime Minister by Demetrios Maximos, a banker and former (1933-35) Foreign Minister. Although associated with the Right and with the King, Maximos is not closely affiliated with any particular party, and is the only person available under whom all Party leaders, except Sophoulis, are willing to serve.

Barring a financial crisis, always possible in Greece's present unstable economy, it seems probable that the Maximos Government will last at least long enough to present a united front during the Security Council Commission's investigation of alleged border violations, and the Porter Mission's survey of the economic situation in Greece. Cabinet leaders are aware, moreover, that any loan which the Porter Mission might recommend would hardly be made by the US to a government lacking bona fide representation and unity. If Rendis should take over the leadership of the Liberal Party from the aged and ailing Sophoulis, the former may bring into the Government some less radical members of that Party. The addition of this liberal element to the Cabinet, in which all the moderate Rightist groups are represented, would broaden and strengthen the Government.

Newspapers of the Left and Center continue to attack the Government as a weak, ultra-conservative compromise, but Maximos apparently is sincere in his promises of pacification and political reform. If he carries out this program as promised, the life of the Government should be prolonged, permitting it to bring about a greater measure of unity in Greece than has existed since the liberation, and to start the country on the road to recovery.

TOP SECRET

TOP SECRET

### Italian Cabinet Prospects

The recent split in the Socialist Party (see Weekly Summary of 17 January, p. 3) and De Gasperi's relatively successful mission to the US have afforded De Gasperi an opportunity to form a new coalition Government that will have fewer Leftist numbers and will commit all participating Parties to assume in advance the responsibility for the signing of the peace treaty.

The new Government will probably consist of a coalition of Christian Democrats, Communists, and Socialists; Saragat's new Socialist Party of Italian Workers and the Republican Party will probably refuse to participate. Although De Gasperi undoubtedly would prefer to form a Centrist Government excluding the Communists, the refusal of the Nenni Socialists to participate in any government without the Communists and the inherent strength of the Communist position preclude the possibility of such a solution. However, De Gasperi will probably be able to strengthen his position by substituting a Centrist or Rightist for the pro-Communist Nenni as Minister of Foreign Affairs and by obtaining from the Communist members a definite commitment to support the policy of the new Government.

### Anti-Trusteeship Sentiment in South Korea

Passage by the South Korean Interim Legislative Assembly of an anti-trusteeship resolution increases the difficulties confronting US Military Government. The resolution was drafted by Rightists following publication of General Hodge's 24 December letter to General Christiakov in which Hodge proposed US-Soviet agreement that only "active" opponents of trusteeship be excluded from consultation with the Joint Commission. The resolution was passed despite Hodge's efforts to persuade its supporters that they would not be surrendering their freedom of speech by subscribing to the Moscow Decision as a condition for consultation with the Commission. These Rightists held that the US had changed its attitude towards trusteeship and was collaborating with the Soviets to impose a protectorate on the Korean nation.

The resolution, which denounced Hodge for attempting to impose trusteeship on Korea in violation of the Atlantic Charter and of his

TOP SECRET

TOP SECRET

own assurances of free speech to the Korean people, was passed by a 44-1 vote. So strong is Korean public sentiment against trusteeship, that Leftist supporters of the Moscow Decision abstained from voting. The moderate Rightist leader, Dr. Kim Kiu Sik, was absent on the day of the vote, and is reported to have gone to the country for a rest. If he follows the moderate Leftist, Lyuh Woon Hyung, into retirement, the coalition on which General Hodge depended for support probably will break up. Having lost control of the Interim Legislative Assembly, the US Military Government in South Korea will find it increasingly difficult to mediate between the Left and the Right.

#### FEC Fixes Japanese Standard of Living

On 23 January, the Far Eastern Commission unanimously agreed on a policy of defining Japan's "peaceful needs" as being substantially the standard of living that prevailed in Japan during the period 1930-1934. Agreement on this question, which has been before the FEC ever since last July, was reached only after the USSR abruptly reversed its position and after China, the other objecting power, withdrew its reservations.

As originally introduced by the US member, the "peaceful needs" proposal recommended the period 1928-1930 as the standard of living yardstick, but permitted reference to more reliable statistics for the period 1930-1934 as a guide for determining consumption levels in the earlier period. Even though the general level of Japanese consumption was about the same in both periods, the Chinese and Soviet members refused to approve the US paper, on the grounds that it was politically undesirable to take cognizance, even for reference purposes, of consumption in any period after 1931--the initial year of Japanese aggression. In mid-January, however, the Soviet member offered a surprise amendment that eliminated all reference to 1928-1930 and accepted 1930-1934 as the base period without qualification. China reluctantly voted in favor of the new proposal, hoping that such action would expedite the determination and distribution of Japanese reparations.

It is believed that the Soviet "reversal", far from denoting a real shift in basic Soviet Far Eastern policy, forms part of an attempt to bolster Soviet prestige by beating a strategic retreat in the face of growing irritation on the part of other Allied powers at the long delay in the

TOP SECRET

TOP SECRET

settlement of Japanese economic and reparations issues. (Proposals on these issues have been on FEC agenda for six months or longer.) By championing speedy conclusion of the "peaceful needs" problem, the USSR apparently hopes to divert attention from the fact that Soviet refusal to compromise on other key issues affecting the Japanese economy and reparations (particularly on the most controversial issue--treatment of Soviet "war booty" seized in Manchuria) has been mainly responsible for blocking their passage in FEC. Moreover, the USSR probably reasons that this latest move, which tends to break the log-jam in FEC proceedings, strengthens its hand in accusing the US of violating the spirit of the FEC terms of reference because the US has threatened to issue unilateral directives to SCAP on economic and reparations matters that cannot be quickly resolved by the FEC.

Agreement on a "peaceful needs" policy was a necessary first step in settling over-all Japanese economic and reparations problems. Whether future implementation of this policy and further progress toward over-all settlement will be effected within the FEC framework or by unilateral issuance of directives by the US depends largely on the extent to which the USSR will make additional compromises on controversial issues. This in turn depends upon the benefits which the USSR believes it can derive from a vigorous propaganda campaign against the threat of "unilateral, illegal and domineering" action by the US. (Such a campaign was launched this week in the Soviet press.)

TOP SECRET

**TOP SECRET**

**SPECIAL ARTICLES**

- 1. Soviet Policy in Terms of Leninist Doctrine**
- 2. Arab Nationalism in North Africa**

**TOP SECRET**

TOP SECRET

## SOVIET POLICY IN TERMS OF LENINIST DOCTRINE

However far the Kremlin, in its quest for power, may have strayed from certain of the ethical and humanitarian principles once professed by Marx and Lenin, there can be no doubt that Marxism is still the Soviet state religion and Lenin its holy prophet. One authoritative eulogizer of Lenin recently placed special emphasis on the applicability of Leninism to current Soviet problems of foreign policy. "The Soviet land," said he, "can take pride in its leaders, who, in the field of foreign policy, work according to Lenin."

If the architects of Soviet policy do in fact turn to the pages of Lenin for guidance in solving some of the problems which now confront them, it may be interesting to examine a few of the passages which may come to their attention.

What should be the ultimate Soviet objective for Europe? "That there will be a Socialist Revolution in Europe there is no doubt. All our hopes in the final triumph of Socialism are based on this certainty which is in the nature of a scientific prediction."

Can the Soviet Union live in peace with the capitalist states? "We are living not merely in a state, but in a system of states; and it is inconceivable that the Soviet Republic should continue for a long period side by side with imperialist states. Ultimately one or the other must conquer." Furthermore, "a number of terrible clashes between the Soviet Republic and the bourgeois states is inevitable."

What considerations should govern the offer of a new alliance to Britain? "We are at present between two foes. If we are unable to defeat them both, we must know how to dispose our forces in such a way that they fall out among themselves; because, as is always the case, when thieves fall out, honest men come into their own. But as soon as we are strong enough to defeat capitalism as a whole, we shall immediately take it by the scruff of the neck."

What is the significance of a new trend in Soviet strategy? "In order not to get lost in these twists, in order not to get lost in the periods of retirement, retreat or temporary defeat, or when history or the enemy throws us back...the important and the only theoretically correct thing is not to cast out the old basic program."

TOP SECRET

TOP SECRET

What tactics should be used in the pursuit of Soviet objectives?  
"It is necessary...to use any ruse, cunning, unlawful method, evasion,  
concealment of truth."

A glance at the history of Soviet foreign relations can lead only  
to the conclusion that the concepts outlined above have had an unmis-  
takable influence on Kremlin policy. There is no reason to suppose  
that this influence is likely to diminish in the near future.

TOP SECRET

TOP SECRET

## ARAB NATIONALISM IN NORTH AFRICA

France's traditional policy of alternating suppression and moderate reforms in North Africa has failed to prevent the recrudescence and intensification of Arab nationalism in that area. The USSR, in support of its long-range objective to control the Mediterranean, has followed the classic Marxist line by encouraging Moroccan, Algerian, and Tunisian Communist Parties to support native nationalist elements. Recent indications that France "is scraping the bottom of its military manpower barrel" in North Africa in order to transfer troops to Indo-china raise doubt as to France's continuing ability to maintain order in its North African possessions.

The North African nationalist movement comprises two groups: one, led by the independent Arabs, demands autonomy within the French union; the other, embracing nationalist Arabs (abetted by the Communists and tacitly supported by the Arab League), demands complete independence from France.

The present upsurge in nationalism may be said to date from 8 May 1945 (V-E Day) when Arab nationalists took advantage of French military weakness to rebel throughout the Algerian Department of Constantine. French troops, flown from France, Morocco, and Tunisia, quelled the insurrection. Rigid censorship prevented exact reports, but Arab Nationalists claim the French inflicted 16,000 to 20,000 casualties, including more than 6,000 dead.

The Communists have sought to stimulate nationalist sentiment by propaganda belittling the Western Powers, by encouraging North African trade unions to join the Soviet-sponsored World Federation of Trade Unions (WFTU), and by advocating in Communist-controlled periodicals independence and self-government. Tunisian labor unions already have set a precedent for their counterparts in Algeria and Morocco by leaving the Communist-dominated but French General Confederation of Labor (CCT) and having themselves accepted by the WFTU as the "sole Tunisian labor association." Though Communism is repugnant to practicing Moslems, some nationalists have been taken in by Communist support and others apparently believe that they can rid themselves of Communist connections, once independence has been achieved.

Arab nationalists, moreover, are attempting to draw the attention of the great powers to their cause. They appear to be concentrating

TOP SECRET

**TOP SECRET**

their activities in Casablanca in order to impress foreign consulates with their growing strength and determination to achieve independence. In addition, they recently sent Habib Bourguiba, Tunisian Nationalist leader, to present his case before the UN.

There are some indications that Communist influence in North Africa may be diminishing, in part as a result of unfavorable reaction to reported Soviet treatment of Moslems in the USSR. However, if France fails to intensify its current efforts to liberalize the various regimes in North Africa, Arab nationalists may turn increasingly to the Communists for help in attaining independence, and they may even attempt to capitalize on increasing French military weakness in this region and resort to violence.

**TOP SECRET**

TOP SECRET

32

WEEKLY SUMMARY

Significant Trends

The Blum-Attlee Conversations ..... 1  
Soviets Emphasize Production of Consumer Goods ..... 2  
Dimitrov, Possible Head of a Balkan Federation .. 3  
Issues in the London Talks on Burma ..... 4

Special Article

The Rightist Revolt in South Korea ..... 1

32

Document No. \_\_\_\_\_  
NO CHANGE in Class.   
 DECLASSIFIED  
Class. CHANGED TO: TS S C  
DDA Memo, 4 Apr 77  
Auth: DDA REG. 77/1763  
Date: 27/1/78 By: D23

TOP SECRET

**TOP SECRET**

**The Blum-Attlee Conversations**

The initiation of conversations on French-British economic and political problems a few days before the end of Blum's interim Government stemmed from a sincere desire on Blum's part to see France and England draw closer together. The British on their part seem to have realized, somewhat belatedly, that it was not only opportune but feasible to reconcile British-French differences over the German problem.

The chief stumbling blocks to previous agreement had been the immediate question of additional Ruhr coal for France and, more fundamentally, France's demand for the political separation of the Ruhr-Rhineland from the rest of Germany. The French Communists and the MRP have frequently voiced their opposition to the UK policy towards Germany, though for different reasons. The former had opposed any pact that might serve as a basis for alignment of Western Powers against the USSR. The MRP had then unwittingly played the Communist game by sponsoring France's role of "bridge" between the US-UK and the Soviets. In most cases, Bidault, while Foreign Minister, attempted to remain neutral or to effect "compromise" solutions which actually were favorable to the USSR. Such a middle-of-the-road policy aroused the opposition of both the US-UK and the USSR and brought no real benefit to France. A deadlock developed in British-French relations regarding Germany. This impasse was not broken even after the fall of the Bidault cabinet.

In spite of several French feelers, the UK did not believe until the last days of the Blum regime that a rapprochement was possible. The success of the Socialist price reduction program, popular backing of Blum's visit to the UK, and consequent reduction of Communist and MRP prestige convinced the UK of the desirability of accepting Blum's advances. The UK probably recognized at the same time that, while any coalition government which followed Blum's would not initiate conversations, it would almost certainly have to continue them if they were successfully started.

Following an arrangement regarding French coal requirements, and a joint admission that French-UK differences on Germany could be composed, Blum and Attlee agreed to initiate conversations looking to an alliance between the countries and to plan for immediate conferences of financial experts on reconstruction programs for both nations.

**TOP SECRET**

**TOP SECRET**

The MRP and the Communists, though still basically opposed to alignment with Britain, will probably be forced to continue Blum's policies. Bidault, the new Foreign Minister, has expressed "reserve on this new orientation of French-British relations," emphasizing the avoidance of an "occidental bloc." The Communists have expressed the same "reserve" and have insisted that no Western bloc be formed. Nevertheless, French popular reaction (except from the extreme Left) to the program of French-British economic and political collaboration has been so overwhelmingly favorable that neither Party can afford at the moment to depart too radically from this new line in French foreign policy.

If French public opinion continues to support the Blum policy, and the more cooperative British attitude promises to result in concrete guarantees of French security vis-a-vis Germany as well as in substantial amounts of Ruhr coal, Bidault may make a genuine attempt to conclude an Anglo-French alliance.

**Soviets Emphasize Production of Consumer Goods**

In spite of important accomplishments in 1946, production in many branches of Soviet economy remains well below both the pre-war level, and the goals set for the first year of the Fourth Five-Year Plan.

The most serious failures have been in the production of foodstuffs, agricultural machinery, consumer goods, and housing. This situation has caused popular demoralization and dissatisfaction which, in turn, has been partly responsible for low levels of production in important spheres of heavy industry: electrical equipment, machine tools, construction equipment, and coal.

Several recent decrees of the Council of Ministers show that the Kremlin is seriously concerned. These decrees give a greater priority to the production of consumer goods than to heavy industry, a policy in marked contrast to that expressed when the current Plan was announced.

**TOP SECRET**

TOP SECRET

Dimitrov, Possible Head of a Balkan Federation

Georgi Mihailov Dimitrov, Premier of Bulgaria and a key Communist, is emerging as a more likely candidate than Marshal Tito to head a Soviet-sponsored Balkan Federation. Tito has increasingly been recognized by the outside world as powerful--in fact, he has attained more power than the Kremlin normally permits a subordinate. The recurrent pattern of Communist Party control, however, indicates that such leaders are often superseded by thoroughly indoctrinated and trustworthy but less-publicized individuals. Dimitrov's career and past affiliations, therefore, make him a logical choice as the Kremlin's most important representative in Eastern Europe:

Dimitrov served a youthful apprenticeship in revolutionary activity as Secretary of the Bulgarian Printers' Union, a member of the Social Democratic Party, and Secretary of the Confederation of Trade Unions. In 1919, he was co-leader of the faction in the Social Democratic Party which went over to Communism and became a section of the Comintern. In 1920, he was a delegate to the Second Congress of the Comintern in Moscow and headed the Balkan Communist Federation. As a delegate to the Third Congress of the Comintern he was designated an alternate member of the Executive Committee and an organizer of the Profintern (Soviet international trade organization).

After an abortive coup d'etat directed at the Tsankov Government in 1923, Dimitrov fled Bulgaria and, for ten years, was a diligent Party worker in the USSR and in Germany, where he gained fame for his successful defense against the German Government's charges that he had set fire to the Reichstag. From 1934-1945, Dimitrov, having become a Soviet citizen in Moscow, was made a deputy to the Supreme Soviet and, finally, Secretary General of the Comintern from which post he directed the destiny of International Communism and established himself as one of the most trusted agents of the Politburo. From Moscow he maintained close contact with the Bulgarian's Workers' Party and directed the establishment of the Communist-dominated Fatherland Front Government of 9 September 1944.

The Supreme Soviet released Dimitrov from citizenship in August 1945 to campaign for a seat in the Bulgarian Grand National Assembly and to prepare for his election as Premier in November 1946.

TOP SECRET

TOP SECRET

Issues in the London Talks on Burma

Discussions of Burmese independence proposals between UK Foreign Office and the Burmese representatives in London have been marked by the slowness of the latter to recognize the constitutional implications for the British and the impracticability of immediate realization of Burma's demands for UN membership and exchange of diplomatic representatives with foreign governments. While personal relations between UK and Burmese representatives are amicable and the Burmese seem impressed with British sincerity, the negotiations have been complicated by the fact that the League has committed itself to withdraw from Burma's Executive Council by 31 January unless Britain accedes to independence demands which, requiring British Parliamentary approval, cannot be met by that time.

If the League is compelled by failure at London to withdraw from the Burmese Government, it would be obliged to seek by strikes and demonstrations the concessions it failed to obtain by negotiation, in order not to offer Burma's Communists an opportunity to exploit the League's lack of success in negotiation.

The Communists already have taken advantage of the absence of the principal anti-Fascist leaders to stage a series of demonstrations at home and to press for acceptance by the Government of Burma of their labor demands. The Communist aim clearly is to appear as the only group capable of obtaining concessions from the UK. Certain of the Communist military groups, numerically strong but uncoordinated, have already clashed with police and units of the Anti-Fascist League. (Whatever the outcome in London, the Communists hope to increase their strength.)

If agreement is reached in London, the Communists will seek to discredit the League by charging it with having "sold-out" to the UK and to cripple any government established under League auspices. Their capabilities, however, will probably be limited to scattered outbreaks and acts of violence. On the other hand, if the UK and League representatives fail to agree, the Communists expect to increase their ranks by desertions from the League and improve their ability to wage underground warfare for Burmese independence. The result would be a three-cornered struggle between the League and the Communists for leadership in Burma and between both these groups and the UK over Burma's independence.

TOP SECRET

**TOP SECRET**

There are indications at present that in order to avoid such a situation and to meet UK constitutional difficulties, the Burmese delegation, as a last resort, may agree to a formula such as has been applied in India whereby the UK Governor would withhold use of his powers pending action by the British Parliament on the question of formal independence.

**TOP SECRET**

**TOP SECRET**

**SPECIAL ARTICLE**

**The Rightist Revolt in South Korea**

**TOP SECRET**

TOP SECRET

## THE RIGHTIST REVOLT IN SOUTH KOREA

The US Military Government in South Korea is now facing the prospect of general disaffection and civil war as a result of the recent outbreak of Rightist agitation for immediate independence. General Hodge was able to forestall uprisings scheduled for 18, 19, and 20 January, so that the situation appears for the moment to be in hand. The basic causes for unrest persist, however, and may precipitate a crisis at any time, unless some satisfaction is given to the insistent Korean demands for unity and independence. As the protracted deadlock between the US and USSR over a resumption of Joint Commission negotiations prevents the execution of the Moscow Decision, SCAP has recommended that the entire Korean question be reopened by submitting it to the UN or to a special four power commission, or by holding top-level discussions between the US and the USSR. General Hodge has not suggested any particular line of action, but, in the belief that the situation may be irretrievably lost if a solution is delayed for another two months, has asked for a prompt decision.

Although economic stagnation and political unrest have aggravated Korean discontent, the current crisis was provoked by Rhee Syngman (leader of the extreme Right). From the beginning of the occupation until last week, US Military Government in South Korea had found its chief support among the Rightists. Not wishing to depend exclusively upon the Right, General Hodge has long sought to build up support from the Left. In order to conciliate the moderate Left, the US Military Government has consistently sought to diminish the influence of Rhee Syngman and the extreme Right. This effort to form a coalition of moderate Rightists and Leftists appeared at one time to have succeeded. The Interim Legislative Assembly of South Korea was established last December at the instigation of a unity committee of Rightists and Leftists which functioned under the aegis of the Military Government. Elections to the legislature, however, gave the Rightists an overwhelming victory and alienated the Left. With the retirement from politics of such moderate Leftist leaders as Lyuh Woon Hyung, the Left has fallen increasingly under the domination of the Communists who are operating with great effectiveness. Having lost the Left to the Communists, General Hodge is now threatened with losing the Right to Rhee Syngman.

Rhee Syngman returned to the US at the beginning of December with the encouragement of General Hodge, who believed that Rhee's

TOP SECRET

TOP SECRET

departure would promote the pacification of South Korea. Immediately after Rhee's arrival in the US, however, he proceeded to campaign for abrogation of the Moscow Decision and recognition of a separate government for South Korea which would represent the entire Korean nation. Reports of Rhee's campaign appeared in the South Korean press and aggravated the conflict between Right and Left. Although both General Hodge and the State Department have reaffirmed US adherence to the Moscow Decision, the Interim Legislative Assembly has increasingly assumed the role of a separate government. The signal for Rightist agitation against Military Government was given by Rhee in his New Year's message which he requested General Hodge to publish throughout Korea. In this message Rhee declares that the time has come to strike for immediate independence. The Moscow Decision has already been scrapped by the Soviets, Rhee believes, and there is no point in further temporization. He adds that the Rightists have consistently cooperated with the plans of the US Military Government, which have all been foiled by the resistance of a handful of Leftists. In these circumstances, he argues, the only solution is to establish a separate government in South Korea under the complete control of native Koreans.

After receiving Rhee's message, General Hodge promptly got in touch with the most prominent Rightist leaders in South Korea. A series of conferences ensued between Korean politicians and US Military Government officials. From these conferences General Hodge learned of Rightist plans to stage uprisings in connection with independence rallies on 18, 19, and 20 January. Bloodshed was expected and a couple of leaders had already volunteered for martyrdom. General Hodge was able to stave off the threat of insurrection at the eleventh hour, but unrest persists and civil war or rebellion may break out at any moment.

The lines of conflict between the US Military Government and the Rightists have now been sharply drawn. In his press releases of 5 January and 16 January, General Hodge condemned the proposal for a separate government for South Korea. The Rightists on the other hand have redoubled their attacks on the Moscow Decision and on trusteeship. The publication of General Hodge's letter of 24 December to General Chistiakov, which offered to resume Joint Commission negotiations, resulted in charges by the Right that it is being "sold down the river." On 15 January, 30 Rightist organizations issued a

TOP SECRET

**TOP SECRET**

manifesto calling on the Allies to cancel the trusteeship clause of the Moscow Decision and to set up a provisional government immediately. At the same time, the Rightist majority of the Legislative Assembly was prevented from adopting a resolution condemning trusteeship only by the adjournment of the session.

The US Military Government in South Korea has thus been put in the position of defending a policy which it cannot carry out. This dilemma will persist as long as the US remains bound by the Moscow Decision without being able to come to terms with the Soviets on its execution.

**TOP SECRET**

JAN 1941

**TOP SECRET**

31

PV  
303**WEEKLY SUMMARY****Significant Trends**

<b>Britain's Middle Course Finds Expression in the UN . . . . .</b>	<b>1</b>
<b>Withdrawal of Soviet Forces from Southern Bulgaria . . . . .</b>	<b>2</b>
<b>Political Significance of Italian Socialist Split . . . . .</b>	<b>3</b>
<b>Turkey Seeks to Strengthen Relations in Middle East . . . . .</b>	<b>4</b>
<b>The Iranian-Soviet Oil Concession . . . . .</b>	<b>5</b>
<b>Communist-Instigated Purge in Hungary . . . . .</b>	<b>6</b>
<b>The Spitzbergen Controversy . . . . .</b>	<b>7</b>
<b>Continued Hostilities in Indochina . . . . .</b>	<b>8</b>
<b>Brazilian Elections to Measure Communist Threat . . . . .</b>	<b>9</b>

31

Document No.			
NO CHANGE in Class.	<input type="checkbox"/>		
<input checked="" type="checkbox"/> DECLASSIFIED			
CLASS. CHANGED TO:	TS	S	C
DDA Memo, 4 Apr 77			
Auth:	DDA 77/1763		
Date:	27/1/77	By:	623

**TOP SECRET**

TOP SECRET

### Britain's Middle Course Finds Expression in the UN

The trend toward an independent British foreign policy as outlined in the Weekly Summary of 15 November 1946 ("Possible Strains on Anglo-American Collaboration") is exemplified in recent developments in the Security Council.

In major differences of opinion between the US and the USSR, Britain increasingly is assuming a middle-of-the-road position and apparently hopes to act as mediator between the two greatest world powers. By so doing, the Labor Government seeks to expedite the realization of world security and, at the same time, to satisfy those critics within the Party who have expressed dissatisfaction with "reactionary" US policy and with British "subservience" to that policy.

Sharp protests from Left Wingers of the British Labor Party against the conduct of British foreign policy have been in some measure reflected in British tactics in the United Nations. Until recently, Britain presented an almost united front with the US, especially in atomic politics. When the US, however, sought to snap the procedural whip in the Security Council to compel immediate action on the Baruch proposals, the British representative, Sir Alexander Cadogan, tactfully suggested that the US should avoid forcing an immediate vote. While Britain urged caution, the protests of other nations against US procedural dictation swelled into a chorus.

It is clear that the prevailing view in the SC favors concurrent discussion and consideration of the Atomic Energy Commission report and the Soviet resolution for formulating practical measures to reduce armaments generally. Although concurrent discussion does not necessarily preclude ultimate priority for the AEC reports, it is significant that the British did not align themselves with the US on this issue.

Britain has fundamental reasons for adopting an intermediate position in the UN as between the US and the USSR. These reasons are:

1. The British public is anxious for the rapid substitution of law for force in world affairs. It has been convinced by war-time experiences that the home islands would be exposed to immediate devastation in any future war. It feels that Britain can best assist world

TOP SECRET

TOP SECRET

security by acting as a mediator between the US and the USSR.

2. In discussions regarding arms limitations, Britain occupies a middle position between the US and the USSR. The US, with a virtual monopoly of atomic weapons, wishes to confine the disarmament discussions in the SC to that subject, which it deems to be of overwhelming importance to world security and in which the US still holds the trump cards. The USSR, on the other hand, wants to play for time, and to broaden the agenda to include general disarmament in the consideration of which its enormous army and manpower would be effective bargaining points. The UK, having suffered substantially in the last stages of the war from long-range guided missiles and V weapons - knowledge of which the USSR has obtained from German sources -- has a real and urgent interest in the regulation of weapons of mass destruction other than the atom bomb. While the British share atomic knowledge with the US and Canada, the producing plants are in the US, not the UK.

3. Britain realizes that its present influence in world affairs is inferior to that of the US and the USSR. It therefore believes its influence can be made more potent by returning to its traditional balance-of-power policy rather than by constant support of the US.

4. British manpower limitations and fiscal problems dictate a reduction of the present heavy burden imposed by the continuing maintenance of large armed forces. Hence the Government favors an early and complete solution of the whole world security problem.

5. The British Labor Government, by its very nature, occupies a middle ground between the capitalistic democracy of the US and the totalitarian socialism of the USSR.

#### Withdrawal of Soviet Forces from Southern Bulgaria

Since mid-December the USSR has materially reduced its forces in southern Bulgaria. While the total Soviet strength in that country is still estimated at 120,000, troops formerly concentrated along the Greek and Turkish frontiers have moved northward to the area immediately south of the Balkan Mountains. Particularly heavy concentrations have been noted in the vicinity of Plovdiv.

In view of the advantages of southern Bulgaria as a site for winter quarters, it is probable that these withdrawals have been dictated by political rather than by military considerations. They

TOP SECRET

TOP SECRET

may be designed to reduce the possibility of embarrassment to the USSR which might result from the Security Council's forthcoming investigations into Greek Border incidents. The withdrawals also may be a part of a general Soviet plan to ease international tension in anticipation of the Moscow CFM meeting.

Political Significance of Italian Socialist Split

Last week's secession of the more conservative elements from the Socialist Party will weaken the extreme Leftist position in the next Italian national election and strengthen, at least temporarily, the Centrist elements. The revolt was the outcome of a prolonged battle between the majority left-wing Socialists, led by Foreign Minister Pietro Nenni who favored close collaboration and eventual fusion with the Communists, and a smaller group, led by Giuseppe Saragat, which opposed this policy. By establishing "The Italian Socialist Party International Section of Socialist Workers," Saragat seeks to attract moderate middle-class opinion which, he believes, shares his view that there is need for a non-Communistic Socialist party in Italy. Saragat promises a progressive program and professes a fundamental belief in democratic procedures.

In this struggle against fusion with the Communists, Saragat's right wing has been joined by the "Iniziativa Socialista" (Socialist Initiative) group of younger Socialists headed by Deputy Mario Zagari and Matteo Matteotti, son of the famous Socialist martyr. The factions uniting under Saragat represent about 20% of the Socialist Party's membership. Another 15% constitute the "centrist" group of the old party, which may also join Saragat's new Party.

In terms of the national election of June 1946, the present split represents a loss to the Socialist Party of one-fifth to one-third of its electoral strength. (In that election, the Party received 20.6% of the votes cast.) The split also considerably lessens the chances that the Communist-Socialist bloc will retain its present 40% strength in the next government, let alone increase it.

This anti-Communist trend among the Socialists is gradually attracting other Leftist elements. Some Republican Party leaders

TOP SECRET

TOP SECRET

reportedly have promised to join right-wing Socialist and Action Party leaders in common cause against the Communists. These leftist, but anti-Communist groups, may then align themselves with the Christian Democrats, whose right wing has long threatened secession from the Party because of its cooperation and compromise with the Communists in the present government.

The schism in the Socialist Party has created an immediate problem for Premier De Gasperi because a number of Cabinet members belong to Saragat's group of seceding Socialists. On the face of it De Gasperi might have to reshuffle his Cabinet or form a new government excluding the Communists and the Nenni Socialists. He will undoubtedly avoid the latter radical course lest Leftist disorders and strikes violate the "stability" condition of the latest Eximbank credit loan to Italy. It seems more likely that De Gasperi, master of compromise, will attempt to continue the present Government until the national elections in the hope that his relatively successful mission to the US and a growing anti-Communist movement in Italy will strengthen the moderate anti-Communist parties. However, unless economic conditions in Italy improve substantially, anti-Communist strength will probably gravitate increasingly toward the extreme Right.

#### Turkey Seeks to Strengthen Relations in Middle East

The new Turkish-Trans-Jordan friendship pact, signed on 11 January, represents another step in Turkey's program to establish friendly relations with individual Arab states. This program--which already has resulted in strengthening Turkish relations with Iraq, Syria, and Lebanon--is a consequence of concern over possible Soviet designs in the Middle East. In order to check extensions of Soviet influence to the south Turkey can be expected to encourage mutual trust and friendship among all the Middle Eastern states. This development is being facilitated by common fear of Soviet penetration.

For two reasons, however, the Turks will advance their program circumspectly: they do not wish to become involved in Arab affairs or to risk any act which might be considered provocative by the USSR. Thus, while the Turks have concluded a friendship pact with Trans-

TOP SECRET

TOP SECRET

Jordan they have strongly rejected a Turkish-Arab bloc advocated by King Abdullah of Trans-Jordan. Similarly the Turks are concluding no agreements of a military nature in the Middle East. Likewise, in order not to arouse Soviet suspicions, Turkey has decided against any formal ceremony to revive the Saadabad Pact of 1934, which provides for consultation and collaboration among Turkey, Iraq, Iran, and Afghanistan. The Turks prefer to leave the agreement subject to automatic renewal as stipulated in one of its clauses.

The Iranian-Soviet Oil Concession

When the new Iranian Parliament convenes in two or three months (following completion of the elections which began on 11 January), Prime Minister Qavam, who will in all probability be re-elected, is committed to present for ratification the oil agreement he concluded with the USSR in April 1946. The matter is critical because Iranian-Soviet relations and British and US interests in Iran may be affected by the action which Parliament takes.

Iranian opposition to ratification, which has been growing rapidly, contends that: (1) the agreement was reached under pressure and threats from Moscow; (2) it was offered as a bribe for the evacuation of Soviet troops; (3) it was negotiated in contravention of Iranian law; and (4) if ratified, it will serve as a spearhead for Soviet penetration and subversion, paving the way to ultimate domination of the country by the USSR.

Opponents of ratification will be confronted with the Soviet claim that, because the British hold a concession in the southwest and Iran favors granting concessions to US companies in the East, the USSR is entitled to a concession in the North. The USSR may also point to the negotiations between US companies and the Anglo-Iranian Oil Company (undertaken without the knowledge of the Iranian Government) by which the US companies will participate in the use of a pipe line and in significant quantities of Iranian oil.

The UK favors ratification and has warned Qavam of the possible consequences of provoking the USSR by rejection. The UK declares, however, that the terms must be "fair and acceptable" to Iran. The British reportedly feel that the concession would serve as an obstacle to nationalization of the oil industry in Iran and, therefore, would better safeguard their own interests.

TOP SECRET

TOP SECRET

Regardless of the outcome of the trials of the accused, the Communists have already attained certain primary objectives. Premier Nagy's control over the present coalition Government and his ability to resist further Communist demands (see Weekly Summary of 13 December 1946) have now been weakened. The Communist practice of representing, on the basis of fragmentary evidence, normal political differences of opinion as subversive tendencies will also frighten all potential anti-Communist groups into a policy of extreme caution. This latest Communist maneuver may, therefore, cause the downfall of the present Government. Neither the Rightists nor the Leftists, however, have the strength to rule alone, and the Communists probably do not yet consider their police control of the country strong enough to risk another election in the immediate future. Some sort of uneasy coalition will probably continue, with Communist participation and influence considerably increased.

#### The Spitzbergen Controversy

The news leak in London on the Soviet-Norwegian negotiations regarding Spitzbergen has brought this delicate issue into the open. Both the US and USSR now have unofficially indicated their probable attitudes. The US will maintain that the provisions of the Svalbard Treaty of 1920, which permanently established a prohibition against the militarization of the area, do not permit unilateral abrogation or revision, a position which the UK and Sweden will support. The US will further assert that its withdrawal from Iceland, following Soviet protests at the continued presence of US forces on that island, leaves the USSR no logical grounds for demanding "defense" positions in the Spitzbergen archipelago.

The USSR has now broken its silence on Spitzbergen by issuing an "official communique" through TASS. This statement asserts that Bear Island was "Russian territory" prior to 1920, and advances the fantastic legal argument that the treaty of 1920 "cannot remain valid" because some of its signatories have since fought against the Allies. While the communique does not commit the USSR to any course of action, its tone indicates that the Soviets will attempt a war of nerves over Spitzbergen. In view of their weak legal position the USSR will probably include the Spitzbergen question in negotiations on broader issues. The Norwegians, meanwhile, sorely embarrassed and somewhat compromised, hope to avoid trouble by expressing willingness to acquiesce in the wishes of UN and the Svalbard treaty signatories.

TOP SECRET

**TOP SECRET**

Although the US does not object in principle to the concession, it is doubtful whether an agreement can be so drafted as to protect Iran against some Soviet penetration. Whatever action the Parliament takes, Iran can best counter the effect of this penetration by instituting economic and administrative reforms which will increase living standards and promote political stability. The achievement of the latter objectives will undoubtedly require foreign financial assistance.

**Communist-Instigated Purge in Hungary**

The Hungarian Communist Party, in an attempt to extend its control of the country before the withdrawal of Soviet troops, has renewed its attack on the Smallholders' Party by arresting many of its leaders on charges of plotting to overthrow the Government. Neither the extent of the arrests, nor the truth of the Communist charges, nor even the degree of Soviet complicity can yet be definitely ascertained from the welter of conflicting rumors and counter-charges circulating in Budapest. This much is certain: the Communist-dominated Ministry of Interior and the political section of the Ministry of Defense are arresting all persons suspected of anti-Government activity, the majority of whom are rightist Smallholders who were active in the anti-German resistance movement. The Communists have accused them of belonging to an alleged subversive organization (The Hungarian Unity Movement), of plotting the overthrow of the Government, and of planning to return Admiral Horthy to power. There is little doubt that the Hungarian Unity Movement exists, but its members probably do not desire the return of Horthy or the overthrow of the present Government. More likely the Movement comprises a group engaged in long-range planning to prevent a possible Communist coup after withdrawal of Communist troops.

Premier Nagy's position is admittedly difficult. Although the Communists, as a means of achieving their political aims, have undoubtedly magnified the plot far beyond its actual importance, they have collected enough evidence implicating important Smallholder leaders to prevent Nagy from taking steps to quash the investigation and to make it difficult for him even to deny Communist charges that his Smallholders' Party is implicated with the accused. There is no evidence of direct Soviet complicity in initiating the arrests, but knowledge that the Communists have Soviet backing will also soften Nagy's resistance to Communist machinations.

**TOP SECRET**

TOP SECRET

Continued Hostilities in Indochina

Little hope presently exists for any suspension or termination of hostilities in Indochina. The peace terms which Ho Chi Minh, President of the Vietnam Republic, apparently planned to present to Marius Moutet, Minister of France Overseas, had Ho been able to effect a meeting with the French Minister during the latter's visit to Indochina contained provisions which would have been unacceptable to the French. This Ho Chi Minh presumably knew.

The terms which President Ho was prepared to advance stipulated: (1) a cease-fire order supervised by mixed commissions, with all forces withdrawing to positions established in the agreements of 6 March and 3 April 1946; (2) release of all prisoners; (3) halting of all French reinforcements en route to Indochina; and (4) immediate meetings of qualified French and Vietnam representatives to organize a referendum for Cochin China and to discuss Vietnam foreign relations, the Indochina Federation, and the status of Vietnam in the French Union.

The extent of present French military commitments would hardly have permitted local French commanders to agree to a withdrawal to the status quo of 3 April 1946, especially since they rejected in December the Vietnam demands for a return to positions held before the Haiphong incident of 19 November. Moreover, Vietnam leaders could not have expected the French to reverse their long-held view that a referendum in Cochin China should await restoration of order in the area. If these Vietnam terms were seriously meant and represented the minimum Vietnam conditions for a resumption of Franco-Vietnam negotiations, French military operations "to restore order" will continue.

During his visit to Northern Indochina, Moutet was carefully insulated by French military officials from contact with the Vietnamese, and despite Vietnam claims that an invitation to meet with Ho had been sent Moutet, he denies knowledge of any attempt by Vietnamese to reach him. At any rate, Moutet now seems convinced by what he saw and heard during his visit that negotiation with Ho would be unprofitable and has expressed doubts that Ho or his Government "have any real authority." Moutet believes that French military operations must be brought to a speedy and successful conclusion and somewhat naively feels that this would not involve a military reconquest because, in his opinion, most of the Annamite population does not support "the small Communist group which now dominates."

TOP SECRET

**TOP SECRET**

### **Brazilian Elections to Measure Communist Threat**

The Brazilian elections (for state governors and legislatures) scheduled for 19 January will (1) constitute a genuine test of strength for the Brazilian Communist Party after a period of apparently unprecedented growth, and (2) enable the Brazilian Government, which has for several months been threatening to declare the Communist Party illegal, to base its future policy on facts rather than on guesses regarding the size of Communism's popular following.

Communist spokesmen in Brazil confidently expect to poll over a million votes in next week's election, and even the most optimistic anti-Communist observers are resigned to the prospect of strong Communist blocs in the legislatures of such important and strategic areas as the Federal District, Sao Paulo, Santos, and Recife. A Communist vote of one million would represent an increase of 40% over the Communist showing in the December 1945 elections; and, assuming a total of votes cast for all parties approximately equal to that in 1945, it would mean that the Communists would control nearly one-fifth of the Brazilian electorate. This would not imply, of course, that Brazil's Communists are in a position to make an early bid for power; with an electorate still 80% non-Communist, the Government would be in complete control of the situation. The alarmism discernible in official, Church, and Conservative circles relates, therefore, not to the present maximum strength of the Communist Party, but to (1) the rate of growth that a Communist vote of one million would indicate, and (2) an awareness of the fact that the Communists, because of the discipline and energy with which they pursue party interests between elections, will be able to exert upon day-to-day affairs an amount of pressure out of all proportion to their numbers. President Dutra's speech on 13 January, in which he made an impassioned plea for a strong anti-Communist vote, reflects this two-fold anxiety.

Dutra can count on powerful Army support should he adopt measures against the Communists. Some high Army officers have even been reported ready to seize power if the President decides to take a chance on further Communist gains. Moreover, non-extremist civilian circles, which have in the past opposed any anti-Communist measures involving "undemocratic" repression of civil liberties, have also been impressed by recent evidence of the spread of Communist sentiment, and there is reason to believe that they might at present offer only token resistance to repressive measures against the Communists.

**TOP SECRET**

**TOP SECRET**

If, after the elections, the Brazilian Government continues to extend to the Communist Party the normal constitutional guarantees, the Communists can be counted on to make the most of the Dutra Government's continued failure to cope with Brazil's increasingly unfavorable economic situation. Emboldened by the Government's failure to make good its long-standing threat to outlaw their Party, the Communists might, particularly if their gains in the election prove large, abandon their recent policy of avoiding sharp issues with the Government on domestic affairs. Failure of the Government to take strong steps against the Party, in the face of substantial Communist gains, probably would weaken the Government's present support among Brazilian Conservatives.

**TOP SECRET**

TOP SECRET

10 JAN 1947

30

10  
JAN

## WEEKLY SUMMARY

### Significant Trends

Current Soviet Propaganda .....	1
Rumania Seeks US Economic Assistance .....	2
Implications of the Anglo-Burmese Talks .....	4
Prospects in Indochina .....	5
Division of Korea Impedes Economic Improvement .....	7

### Special Article

Evaluation of Soviet Policy by Bulgarian Royalist General .....	i
---	---

Document No. 30  
NO CHANGE in Class.   
 DECLASSIFIED  
Class, CHANGED TO: TS S C  
DDA Memo, 4 Apr 77  
Auth: DDA REG. 77/1763  
Date: 27/1/78 By: D23

TOP SECRET

**TOP SECRET**

**Current Soviet Propaganda**

While the first manifestations of a more "conciliatory" Soviet foreign policy caused some confusion among the Kremlin's propagandists, the latter now appear to have untangled the Party propaganda line and have reverted to much the same course as before.

During recent weeks, major attacks have been made on: (1) the "clearly offensive" character of US plans for "hemisphere defense"; (2) US efforts aimed at the "economic domination" of China; (3) US occupation policies in Japan which, according to RED STAR, "have not resolved a single one of the numerous domestic problems" confronting that country; (4) Anglo-American policies in Western Germany, under which, according to the newspaper TRUD, "Fascism has not only not been eradicated, but has been permitted to grow new roots"; and (5) the old standbys, "dollar diplomacy" and "atomic diplomacy."

The immediate target of Kremlin propagandists, however, appears to be Anglo-American solidarity. President Truman's announcement of the continuation of military collaboration between the UK and the US was promptly attacked by PRAVDA, which criticized "the Anglo-American agreement on standardization of armaments, the decision on extended activity of the Anglo-American joint staff committee in the USA, and the very recently published agreement on prolonged 'wartime' cooperation." All these steps, continued PRAVDA, "are aimed at concluding new military alliances, surrounded, moreover, in notable secrecy and concluded outside the framework of the international organization for securing peace, and can but arouse legitimate perplexity."

Along with such comment several articles have appeared in the Soviet press emphasizing the economic rivalry between the US and the UK, and warning the British against becoming involved with "Yankee imperialism." These tactics appear designed to support British leftists in their recent attacks on Bevin for alleged subservience to US leadership.

**TOP SECRET**

**TOP SECRET**

**Rumania Seeks US Economic Assistance**

The Communist-dominated Groza Government in Rumania, faced with a severe food shortage and other economic difficulties, must obtain outside assistance in order to prevent near-starvation and serious hardships this winter. Rumania is now making belated efforts to obtain US assistance. The Communist-dominated Governments in Bulgaria and Poland may, with slight variations, use similar tactics in their efforts to meet their own pressing economic problems.

The Rumanian Government's attitude toward the US, on the surface at least, has become more conciliatory. Feelers have been put out in an attempt to persuade US capital to invest in the country. Most important, however, the Government has launched a vigorous propaganda campaign to convince the people that it is on the verge of completing negotiations for a US food loan to tide the country over the winter. The purpose of this campaign is to enable the Government to claim full credit for obtaining any loan that might be made, or, failing to obtain the loan, to place the entire blame for the country's economic plight on the US. If the Rumanian Economic Mission scheduled to go to Moscow on 10 January obtains any concessions from the Soviets, the Communists could then make even greater propaganda capital of a US refusal.

Rumania's economic difficulties actually stem directly from the USSR's occupation and reparations policy and from Soviet failure to live up to the terms of the Soviet-Rumanian trade agreements. Even last summer's drought, which was serious only in the northeastern part of the country, would not have endangered the entire country's food supply if the USSR had not been draining off the food surplus for its occupation troops and for reparations. Moreover, shipment of all surplus oil for Soviet reparations has prevented the accumulation of foreign exchange in Western countries for the purchase of food to meet the present crisis. In view of the USSR's own food difficulties and need for oil, it is unlikely that the Soviets will grant any substantial relief to Rumania at this time. Furthermore, the Soviets have already obtained their major economic objectives in Rumania and have no incentive to provide further economic assistance.

The Opposition parties, however, consider that a US loan would play directly into the Communists' hand. According to competent observers, the Rumanian Government is incapable of making an orderly

**TOP SECRET**

**TOP SECRET**

distribution of large-scale food shipments and would unquestionably use them for political purposes. Leaders of the Opposition parties, confident that most peasants have withheld enough food to see them through the winter, even welcome the food shortage and the impending economic crisis as an additional problem to plague the Government. They therefore oppose a US loan at this time, maintaining that it would merely strengthen the Government's position and enable the Communists to claim credit for alleviation of a situation for which they themselves and the USSR are solely responsible.

**TOP SECRET**

**TOP SECRET**

Implications of the Anglo-Burmese Talks

Burmese delegates are en route to London for conversations with Foreign Office officials, to begin about 15 January, regarding independence for Burma. These talks result from the demands made by the Anti-Fascist League in November 1946 that Britain (1) announce that Burma would become independent by January 1948, (2) recognize the present Executive Council as an interim national government and (3) permit the April 1947 elections to be held for a Constituent Assembly independent of foreign participation. An element of urgency was added by the inclusion of an ultimatum that unless these demands were met by 31 January 1947, all League members of the Executive Council would resign. Such a move would render ineffective native participation in the Government of Burma. The British reacted slowly to these demands and thereby intensified Burmese impatience and determination to force the issue of independence. When the Foreign Office late in December invited certain Burmese representatives to come to London to discuss Burma's constitutional future, the Anti-Fascist League accepted the invitation with the understanding that its members would still be withdrawn from the Executive Council, if League demands were not met by 31 January.

While British officials are at present rather optimistic regarding the forthcoming London talks, the Burmese delegates are reported to feel that the British failure to include all Burmese groups in their invitation may preclude any agreement in London, and they suspect a British move to postpone any real decisions until a later conference. If no agreement is reached in London on the Anti-Fascist League demands of November 1946, the League, in addition to withdrawing from the Government of Burma, may also call a country-wide general strike. (Continued League membership in the Executive Council beyond 31 January, in the event of failure to obtain British agreement to its demands, would involve great loss of the League's prestige in Burma and would encourage Burmese Communist extremists who believe that the League has become a tool of British imperialism.)

The Anti-Fascist League is well prepared for a campaign of resistance against British authorities. The wide personal following of the League's leader, Aung San, which has increased since his extended tour of North Burma, and the existence of private political armies such as the League's strong Peoples Volunteer Organization permit the

**TOP SECRET**

TOP SECRET

League to apply great pressure on the British administration in Burma. If the London conversations break down widespread civil disturbances will follow in Burma and may involve conflict between British forces and armed native political groups. On the other hand, in view of the existing tension in Southeast Asia and India, it seems more probable that the UK will come to terms with the Burmese.

#### Prospects in Indochina

Since French Overseas Minister Marius Moutet's visit to Indochina, French policy in regard to Vietnam has been committed to the "restoration of order" before negotiating with Vietnam. To restore order by force in northern Indochina would require military operations by large French forces for a period which the French estimate at six months to a year, but which would probably extend to two years or more. The French have attributed the fanatical Vietnam opposition they have so far encountered to the presence of many Japanese in the Vietnam ranks. In reality, few Japanese have been found either dead or alive in the fighting in Vietnam and French military difficulties may more accurately be ascribed to the tenacity and courage of the Vietnam defense as well as to the French lack of infantry and experience in handling armored units. (Approximately 2,500 former German prisoners of war are now unwillingly serving in French forces in Indochina.)

French authorities in Indochina now believe that extremist elements within the Viet Minh League (the political party of Vietnam) were responsible for the attack on Hanoi on 19 December which they feel destroyed all chances of compromise by its premeditated violence. Ho Chi Minh is believed to have come under the control of these extremists, though perhaps not wholeheartedly, and he is still held responsible by the French for Vietnam actions in the present hostilities. French colonial administrators in Indochina have expressed the naive belief that the people of Annam and Tonkin resent the "terrorism" of the Viet Minh League and would choose a more moderate and pro-French government if allowed to make a choice.

When order is restored, the French hope to establish a government in Vietnam which will permit French control of Indochinese foreign

TOP SECRET

**TOP SECRET**

relations and which would consent to a separate state in Cochin-China. Such a government would be powerless to enforce its authority in Northern Indochina in the face of extremist resistance and popular contempt for its puppet status. The continued instability of Northern Indochina under such circumstances would spread to Southern Indochina and would threaten French control in Laos and Cambodia.

Leaders of Free Laos and Free Cambodian groups in conjunction with Vietnam representatives in Bangkok have issued a memorandum calling for UN intervention in the present situation in Indochina. The Vietnam radio has appealed for the support of Free Laos and Free Cambodian movements, and there are indications that these broadcasts have received a favorable response. Important Free Laos leaders have recently left Bangkok for the border territories and may take advantage of French involvement in Vietnam to oust the pro-French administration in Laos. Such an expansion of hostilities together with successful Vietnam resistance to the French would surely encourage extremist leaders in Burma, Malaya, and the Netherlands East Indies to stiffen their opposition to Western colonial powers.

**TOP SECRET**

TOP SECRET

Division of Korea Impedes Economic Improvement

Recent reports of economic conditions in Korea again emphasize the difficulties created by the rigid division at the 38th parallel of this economically integrated peninsula. South Korea, under US control, continues to suffer from conditions of extreme scarcity and inflation. Improvement in the US zone must depend upon substantial foreign imports. North Korea faces severe food shortages that may drive the controlling Soviet authorities to press for aid from South Korea and from abroad, possibly at the threat of denying essential commodities or services to the US zone.

In South Korea, food, fuel, textiles, and other consumer goods are in acute short supply. The shortage of industrial raw materials is growing steadily more serious, with the result that production in large industrial plants is now falling below 20% of capacity. The over-all food situation has shown some improvement, and the official rice collection program is progressing despite determined opposition by some rice growers and despite transportation difficulties. However, substantial imports of food and additional imports of fertilizers are required to provide the 6,800,000 South Koreans in urban areas with even the minimum daily food ration. The acute shortage of most commodities, and the sharp increase in currency circulation resulting from heavy deficit financing by the US Military Government, have led to ever-mounting inflation. Open market prices in South Korea rose by at least 30% in the single month of December.

In North Korea, Soviet occupation forces face a food shortage believed to be far worse than in the US zone. Strenuous efforts by Soviet-sponsored committees to collect rice quotas appear to be meeting with considerable passive resistance. (This resistance, in contrast to that shown in the US zone, is not being fed by steady propaganda from the opposite zone, and thus carries the implication that the Soviets' rigid one-party rule in North Korea has to some extent "back-fired.")

One of the chief obstacles hampering the exchange of essential goods and services across the 38th parallel has been Soviet insistence that supplies from their industrially superior zone must be paid for by rice shipments from South Korea. This Soviet insistence and refusal of US authorities further to deplete the inadequate food supplies in South Korea were largely responsible for the severe lack of fertilizers in South Korea during 1946.

TOP SECRET

**TOP SECRET**

There is some evidence to indicate that the Soviets are now turning to the supply of electric power as a means of bargaining for food. In December the supply of electric power to South Korea experienced two major interruptions. Also in December the Soviets reportedly made an agreement with Chinese Nationalists in Manchuria whereby the Chinese would obtain the output of North Korea's largest hydroelectric plant in return for food and fuel.

**TOP SECRET**

**SPECIAL ARTICLE**

- 1. Evaluation of Soviet Policy by Bulgarian Royalist General**

**TOP SECRET**

TOP SECRET

## EVALUATION OF SOVIET POLICY BY BULGARIAN ROYALIST GENERAL

The following is a condensation of a study on Soviet military policy obtained by the US Military Attaché Bern from General Peter Gantchev, former aide-de-camp to King Ferdinand of Bulgaria and marshal of his Court. General Gantchev, who is now living in Lausanne, is a graduate of the Imperial Russian Military Academy and is a recognized authority on Russian and Soviet military policy. Because of his unique background and experience, and of the general soundness of his analysis, his observations are summarized herewith.

What is now taking place in Bulgaria is but a part of the traditional policy of Russia in the Balkans--a policy which has been in effect since the 18th century and which is aimed at domination of the eastern Mediterranean, especially at control of the Dardanelles. For nearly two hundred years the UK and other powers have frustrated these ambitions, but they persist as the Kremlin's principal goal. There are, however, certain respects in which the present situation differs from that of the Czarist period. Chief among them are:

1. The Fifth Column organizations of the Communist Party give present Soviet leaders a marked advantage over their predecessors.
2. Soviet domination of the governments of Rumania, Bulgaria, Yugoslavia, and Albania constitutes an advantage never enjoyed by the Czars.
3. There are no longer, in Central and Eastern Europe, any major powers which might effectively align themselves against Soviet expansion, as Austria-Hungary consistently opposed Czarist expansion prior to the first World War.
4. Soviet armies are now within 90 miles of the Dardanelles.

Despite these advantages, however, there are certain unfavorable factors in the present Soviet position which make it unlikely that the USSR will embark on military aggression in the near future. Chief of these is its lack of potential major allies. The Soviet Union could not count on assistance from any of the nations beyond the borders of its present satellites, and would be likely to encounter united opposition from the other major powers. Because of the military, technical and

TOP SECRET

**TOP SECRET**

economic superiority which the latter could presently mobilize against it, the USSR will seek to avoid military action in the immediate future. This does not mean, however, that the USSR will not renew the pursuit of its objectives at some future date.

In the meantime, the Kremlin will work feverishly to reinforce its positions. In this, the Balkans will receive top priority. Minor relaxations of Soviet control may be expected in Finland, Czechoslovakia, Austria, Hungary and even Poland, but Moscow will be adamant in any question affecting Rumania and Bulgaria. In these countries, the Kremlin is developing an enormous bridgehead in preparation for an eventual drive against the Straits. Nothing short of revolution or war will drive the USSR from its position in the Balkans or force it to abandon its military expansion toward the Dardanelles.

Concerning a war against the USSR, it should be noted that both Napoleon and the German Staff laid masterful plans for getting into Russia. Their defeat was due to their failure to plan how to get out. Russia can never be conquered by military means alone. The aid of the Russian people will be necessary, and a war against the Soviet Union should be planned as a crusade against the Government and a war of liberation for the people. Germany's defeat was due to her desire to conquer and occupy the country. The Ukrainians and White Russians at first were ready to cooperate with the Germans. It was only after Hitler's purpose was revealed as one of conquest that they turned against him.

**TOP SECRET**

TOP SECRET

29

TOP  
SECRET

## W E E K L Y S U M M A R Y

### Significant Trends

Soviet Demobilization and Redeployment .....	1
The Polish Election .....	2
Possible Reopening of the Straits Question .....	3
Austro-Soviet Negotiations on German Assets ..	4
Chinese Intervention in Indochina .....	5
Prospects for Indian Settlement .....	5
Continuing Friction in Iceland .....	7

### Special Article

Argentina's Drive for Trade Agreements in Latin America .....	i
--	---

29  
Document No. \_\_\_\_\_  
NO CHANGE in Class.   
 DECLASSIFIED  
Class. CHANGED TO: TS S O  
DDA Memo, 4 Apr 77  
Auth: DDA REG. 77/1763  
Date: 27/1/78 By: 023

TOP SECRET

TOP SECRET

### Soviet Demobilization and Redeployment

Recent reports indicate that the fourth phase of Soviet demobilization, now in progress, involves the class of 1922 only, and does not affect the classes of 1923 and 1924, as originally reported. The number of troops currently scheduled for demobilization is, therefore, now estimated at 250,000 rather than 750,000 (see Weekly Summary of 29 November 1946).

The estimate of Soviet forces in Germany has recently been reduced from 675,000 to 600,000. As previously forecast, however, occupation strength elsewhere remains substantially constant. The reduction in Germany appears to be permanent, inasmuch as equipment has been redeployed with troops and, in certain cases, installations have been abandoned. Furthermore, in some areas Soviet troops guarding zonal boundaries have been replaced by native German patrols.

While Soviet withdrawals from Germany have been by units, redeployment in Austria has been on an individual basis. Although there is at present no firm estimate of the net reduction in Soviet forces in Austria, indications are that only approximately 70% of the troops withdrawn from that area have been replaced, apparently by young and inexperienced troops from the Southern Army Group in Bulgaria and Rumania.

Previously reported withdrawals from Poland appear to have been primarily from the central part of the country, leaving the bulk of the remaining Soviet forces concentrated in the former German provinces, now part of Western Poland, and along the Soviet frontier. This latter concentration may be the result of Soviet apprehension over possible disturbances arising from the forthcoming Polish elections. These troops could serve the dual purpose of restoring order in Poland and preventing the spread of civil strife to the border areas of the USSR.

In other areas there is no evidence that substantial redeployment is in progress or contemplated for the immediate future. While the estimate of Soviet strength in Rumania has been revised downward from 240,000 to 200,000 men, figures for Bulgaria and Hungary remain, respectively, at 120,000 and 55,000.

TOP SECRET<sup>1</sup>

TOP SECRET

Thus current Soviet redeployment chiefly affects occupation forces in Germany. While withdrawals may be expected to continue for the next few months, it is unlikely that the USSR will reduce its strength in Germany below the combined British, French, and American total of approximately 443,000 troops.

### The Polish Election

Preparations by Poland's Communist-dominated Government for the country's first post-war election on 19 January differ little from those which swept Leftist blocs to victory in Bulgaria and Rumania. The Polish Government has flagrantly disregarded the Potsdam agreement regarding free elections and has intensified its ruthless suppression of all potential opponents. The election results, therefore, are predetermined. Vice-Premier Mikolajczyk's Peasant Party, which is backed by approximately 70% of the population, will probably be allowed no more than 25% of the vote.

Mikolajczyk has waged a determined but futile struggle against the now-familiar Communist electoral tactics. These include mass arrests of Opposition leaders and candidates, restriction of public speech and assembly, intimidation by secret police and armed forces, and manipulation of the electoral machinery. The Government has exploited the existence of an active underground as a pretext for its oppressive control of the country by secret police. It has also handicapped Mikolajczyk by linking him with the underground.

The certain defeat of the anti-Government forces on 19 January, coupled with scarcities of food and clothing, and exorbitant taxes, will produce an explosive situation which will challenge the law-enforcing powers of the new Government. Outright civil war, however, is unlikely. The underground, although well-organized, is not capable of effective action against the Polish Army and Security Police, both of which are firmly under Communist control and backed by Soviet occupation forces. More important, however, is Soviet unwillingness to allow widespread disorders at this time. Although armed conflict would give the Soviets an opportunity to annihilate the Opposition, it would also endanger Soviet communication lines to Germany and would give the lie to Soviet claims that the present Government has the support of the masses.

TOP SECRET

The Polish Government has flatly denied US and UK charges of failure to fulfil the Yalta and Potsdam agreements. Communist leaders, furthermore, probably consider the loss of Western economic assistance and good will less important than the immediate risk of endangering their control of the Government by adherence to Western principles of democracy. The Communists' post-election plans, however, may include an offer of surface concessions to the Opposition in an attempt to avoid widespread internal disturbances and to obtain some economic aid from the US and UK. Mikolajczyk presumably would reject such concessions because their basic purpose would be to weaken the Opposition's ability to resist further Communist control of the country.

Possible Reopening of the Straits Question

The principle signatories of the Montreux Agreement on the Straits (1936) have recognized that some of its terms are out of date. No conference for revision has yet been called, however, because of Soviet insistence that the Black Sea states alone should control and defend the waterways; and Turkey, with US and British support, has refused to enter into discussions on this basis.

The recent conciliatory trend of Soviet foreign policy, particularly the USSR's non-intervention in the Azerbaijan affair and its failure to veto the Security Council's decision to investigate alleged border violations in Greece, have apparently suggested to the Turks the possibility of reaching an acceptable agreement at this time on the Straits issue. The Secretary General of the Turkish Ministry for Foreign Affairs recently told US Ambassador Wilson that he was considering the possibility of proposing a "regional agreement" for the war-time defense of the Straits to be undertaken by the US, USSR, UK and Turkey.

Such a proposal would provide a further test of the Soviet desire for genuine international collaboration. An abandonment of the Soviet insistence that the riparian states alone control the Straits would open the way for a general settlement of this issue. If, on the other hand, the USSR maintains its previous position, the Turks will have lost nothing by exploring the possibilities; the current deadlock will merely continue.

**TOP SECRET**

**Austro-Soviet Negotiations on German Assets**

The current bilateral negotiations between the Austrian Government and the Soviet Command for settlement of Soviet reparation claims on German property in Eastern Austria are of great significance because the issue involves Austria's entire economic future, and the outcome of the negotiations will indicate the scope of immediate Soviet intentions in this strategically important area of central Europe.

The fact that the Soviets took the initiative in these negotiations by urging the Austrian Government to make an immediate offer suggests that the USSR was anxious to commence negotiations before the forthcoming London meeting of the Council of Foreign Ministers' deputies for Austria in order to forestall quadripartite discussion of the issue. It may also suggest that the USSR believes that it can drive a harder bargain by dealing alone with the Austrian Government. While the Austrians responded by submitting a double offer--one relating to the Zistersdorf oil properties and the other to all other German assets--the terms of their proposal are clearly designed to minimize Soviet interest or control over the national economy.

The Austrian offer provides for immediate Austrian repurchase in schillings or schilling obligations from the USSR of certain specified properties in which there is a German interest, in return for which the Soviets would renounce their claims to all other alleged German assets in Austria. The Austrians have not committed themselves in their proposal to a cash sum, nor have they attempted to define the phrase "German foreign assets" (employed in the Potsdam agreement) in view of the great difference between Austrian and Soviet definitions of this term. The Austrians instead have resorted to simple horse-trading in order to sound out the Soviets on a principle of settlement which in effect would break the strangle hold currently exercised by the Soviets over the Austrian economy.

While it seems clear that the Soviets desire to reach a settlement, they may well consider the Austrian offer unacceptable as it stands. However, they will likely continue direct negotiations in an effort to drive the best possible bargain. In any event it appears probable that Austria will regain possession of a substantial portion of the "German" assets originally seized by the USSR.

**TOP SECRET**

**TOP SECRET**

### Chinese Intervention in Indochina

In the past two weeks Chinese diplomatic officials in London have proposed to the British Foreign Office Sino-British intervention in the fighting between French and Vietnam forces. The Chinese have also suggested to the US Embassy in Paris that the US, British, and Chinese Consuls in Hanoi offer their good offices to limit hostilities. These advances apparently result from the demands of Chinese groups in the Hanoi-Haiphong area that the Chinese Foreign Office make definite efforts to lessen the suffering of Chinese nationals and business activities in Vietnam.

The reaction of the British Foreign Office has been negative, on the grounds that the French would reject foreign intervention and that the French had already expressed willingness to deal with Vietnam on the basis of the agreements of 6 March and 14 September. The British also feel that any British move should await the formation of a permanent French government and a clarification of its policy on Indochina. The US State Department has indicated that its reaction would be similar to that of the British and based on the same considerations.

Further Chinese efforts to intervene in the Vietnam dispute may be expected in the near future. The Central Chinese Government will continue to oppose any strengthening of the present Communist-dominated Vietnam Government and may encourage the development of the pro-Kuomintang refugee Vietnam government-in-exile rumored to have been established in Nanking by the former Vietnam Foreign Minister, Nguyen Tuong Tam. This government-in-exile may move into Indochina with Chinese support. In that eventuality, the French could recognize it without loss of face.

### Prospects for Indian Settlement

Though comparative calm has returned to India, prospects for a peaceful settlement of Hindu-Moslem differences remain dim and an outbreak of civil war, after several months of stalemate, continues probable. The present lull was ushered in by the adjournment of the Constituent Assembly until 20 January, following the tabling of Nehru's proposal that India be proclaimed a Sovereign republic.

**TOP SECRET**

**TOP SECRET**

The unfavorable outlook is heightened by Gandhi's recent recommendation that Congress delegates from Assam withdraw from the Assembly when it divides into groups to draft local constitutions. This advice strengthens the Congress element which opposes acceptance of the British and Moslem League interpretation of the grouping clauses of the British plan for Indian self government (as expressed in the British Government's statement of 6 December), and creates misgivings among those Congress members previously disposed to compromise.

The question of the Congress' acceptance or rejection of the British statement is to be decided by the All India Congress Committee which meets early in January. Despite indications that prominent Congress leaders including Nehru have inclined toward acceptance, it is feared that Gandhi's influence will result in the passage by the Committee of a resolution containing conditions unacceptable to the Moslems.

Chances of agreement have been further reduced by a recent resolution of the Sikh governing body condemning the British statement as designed to "placate the Moslem League" and as making "a substantial addition" to the original British plan. This body also authorized a deputation to request Gandhi's assistance in procuring "adequate safeguards to fulfil the Congress commitments" to the Sikhs.

Jinnah, head of the Moslem League, remains as intransigent as ever. His confidence has been increased by the recent elections in Sind Province, in which the League gained complete control of the legislature, and by a marked increase in League strength in the North West Frontier Province.

The Indian princes are remaining aloof from the dispute on the ground that until and unless the Moslem League participates in the Assembly, deliberations by that body are useless.

Sporadic disturbances continue throughout the country, and the present calm is an uneasy one. It may, however, last several months even though no agreement is reached.

**TOP SECRET**

TOP SECRET

The Moslems, who do not consider British withdrawal as urgent as do the Hindus, look upon the stalemate as a kind of victory for themselves because it forestalls the establishment of a "Hindu Raj." The League is unlikely to precipitate disorders as long as it receives British support on the disputed constitutional questions.

The Congress is also expected to act with restraint for the present, particularly because increased truculence might cause the British to proclaim that the failure of Congress to cooperate in the establishment of a united India justifies favorable consideration of the Moslem demand for a free Pakistan. Any such declaration by the British would almost certainly result in prompt rebellion by all Congress sympathizers. If, for any reason, the Congress should precipitate disorders, it would, in effect, be fighting both the British and the Moslems. Congress leaders would undoubtedly not attempt to use force without making extensive preparations, including, if possible, subversion of Hindu and Sikh elements in the Indian Army. Such preparations would require several months.

#### Continuing Friction in Iceland

Signature of the US-Iceland air base agreement has failed to end the tensions between the Icelandic population and US troops, and some conservative elements in Iceland are now urging abrogation of the treaty at the earliest date permissible under its terms.

The October 1946 agreement provides for a progressive withdrawal of US military personnel, to be completed by April 1947. Already a lack of technical personnel has necessitated the temporary closing of the airport to commercial traffic except for emergencies in daylight. This step was protested by the Communists on the ground that such action requires prior Icelandic concurrence. Iceland's failure to provide the agreed number of civilian police for the protection of the Keflavik area has caused further difficulties. A wave of pilfering ensued and US MPs were authorized to fire over the heads of any person refusing to halt when challenged. Shooting incidents resulted. On one occasion a car searched by the MPs proved to be that of the Icelandic sheriff, who as a member of Parliament had supported the air base agreement.

TOP SECRET

**TOP SECRET**

These developments have not strained relations with Iceland's Prime Minister Thors, although domestic feelings, inflamed by Communist propaganda, resulted in embarrassment to him at an inopportune period during the protracted cabinet crisis. A protest from Thors over the incidents was promptly met by a US apology, and the Icelanders have now given assurances that adequate police protection will be provided at Keflavik.

As long as the USSR regards the US position in Iceland with suspicion, the US will encounter difficulties. Even if the Soviets should become reconciled to the agreement, Icelandic sensitivities would probably continue to cause friction.

**TOP SECRET**

**S P E C I A L   A R T I C L E**

**1. Argentina's Drive for Trade Agreements  
in Latin America**

~~TOP SECRET~~

## ARGENTINA'S DRIVE FOR TRADE AGREEMENTS IN LATIN AMERICA

Summary: In recent weeks Argentina has begun to build a network of bilateral trade agreements with other Latin American Republics which, if completed, would: (1) integrate into a single trade combine, on an assured long-term basis, several economies whose produce Argentina needs in order to achieve the objectives of Peron's Five Year Plan, (2) commit Argentina to an international trade pattern sharply at variance with the principles enunciated by the US Government, and (3) counteract the marked trend in Latin America towards increased dependence upon US exports and US markets.

While the recently-announced "customs union" with Chile is the only major success which Argentina's current trade treaty offensive has accomplished to date, the main outlines of Argentina's new policy had been anticipated in an agreement with Brazil which became effective on 1 January. Moreover, Argentine negotiators are known to be at work on agreements, probably of a similar character, with Bolivia, Paraguay, Venezuela, Ecuador, and Peru. No negotiations with Uruguay have been reported, but the fact that Argentina is normally the principal source of Uruguay's indispensable food imports marks that country also for inclusion in the emergent "southern economic bloc".

Since the drive began, US press reports have exaggerated the negotiate-or-starve character of Argentine trade policy, and have ignored two facts: that Argentina's existing commitments have greatly reduced its exportable surplus of the foods which its neighbors require, and that Argentina's increasingly acute internal transportation problem has often made shipments impossible (particularly to Bolivia), which might otherwise have been made as scheduled. Nevertheless, Argentina, operating as it is in a sellers' market and fortified by the vast cash balances it earned by supplying the United Nations during the war, is taking full advantage of the fact that the countries it seeks to integrate with its economy urgently need both food and capital.

Press reports have also exaggerated the extent to which the recent agreement between Argentina and Chile involves "domination" of the Chilean economy by Argentina. This agreement provides, among other things, for (1) two loans of 300 million Argentine pesos to be used for industrial improvements and a general public works program in

~~TOP SECRET~~

Chile, and (2) a commitment on the part of each country to deliver no exports to a third party until it has met certain stipulated quotas of shipments to the other, and (3) free-port privileges for each of the two countries in the other's territory. In the absence of proof that the amount of the loan exceeds Chile's capacity to pay and that Chile's present leadership is indifferent to the dangers of subordination to Argentina, there is every reason to believe that Chile will maintain its economic independence, and that, by entering the agreement it has, if anything, strengthened its bargaining position vis-a-vis third parties. The loan was negotiated at a time when President Gonzalez Videla of Chile had informed US Ambassador Bowers that, in his opinion, the US was withholding a loan to Chile in an attempt to bring pressure on the Chilean Government in behalf of a US mining company.

Argentina's present trade policy is guided by three important considerations: (1) a preference for agreements of an essentially barter type, involving the exchange of stipulated amounts of specific commodities (Brazil is to furnish Argentina tires, crude rubber, cotton cloth, iron, and glass in return for wool, casein, and wheat); (2) shrewd timing of negotiations, to take full advantage of favorable diplomatic opportunities and of pressing needs on the part of other countries (Argentine negotiators are now most active in Peru, where they are offering a generous loan at a moment when the US refuses to negotiate a loan without a prior debt settlement that Peru says it cannot afford, and in Bolivia, whose urgent food requirements possibly cannot be met by any country save Argentina); and (3) a determination to face the US-sponsored International Trade Organization with a fait accompli that will guarantee Argentina's future markets and future supplies of needed imports.

Some Argentine economists are already speaking of the Argentine-Chilean agreement as a "springboard for similar treaties from Canada to Tierra del Fuego." A more moderate but also more alarmist view of the long-term implications of the trade treaty offensive has been advanced by Haya de la Torre, the leader of Peru's dominant APRA party. Haya, who opposes Peru's entry in the new bloc, nevertheless believes that it will finally include Chile, Bolivia, Paraguay, Uruguay, and perhaps Brazil. He also believes that Argentina is prepared to offer generous terms to the countries it

~~TOP SECRET~~

wishes to attract into the bloc, and that Peru, despite his opposition, may "ultimately deal with Argentina unless aid is forthcoming from the United States." Brazil's position vis-a-vis the bloc, Haya feels, will depend on the future political fortunes of Getulio Vargas, whom he describes as "sympathetic" to Peron. However, Haya believes it is not too late to counter Peron's economic expansion program, provided measures are taken promptly, independent of Argentine leadership, to increase trade among the South American countries.

Hemisphere Communists face a difficult dilemma with respect to Argentina's trade offensive. They distrust Peron, but since any successes achieved by the offensive weaken US leadership in South America, they are tempted to wish it well. Chile's Communists, for instance, have applauded the Argentine-Chilean treaty, and the Communists in other countries, as they join the bloc, may be expected to follow their example.